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ABSTRACT

Profitable businesses are needed on Indian reservations to help Indians overcome cultural and economic barriers, become self-sufficient, and achieve a standard of living comparable to that enjoyed by non-Indians in neighboring communities; the 25 loan, grant, and technical assistance programs administered by 8 federal agencies, however, have not successfully promoted such necessary economic development. Congress should consolidate the programs into a single agency which would then be better able to identify those reservations with the best potential for business development, and to promote it aggressively in those locations while providing financial, technical, and managerial assistance when needed. For other reservations, the agency should determine whether long-term federal financial assistance is needed or alternative strategies should be developed. The Bureau of Indian Affairs should also correct its administration of the Indian Financing Act of 1974, in part by reevaluation of its loan policy and by obtaining and evaluating required documentation prior to awarding loans or grants. Finally, Congress should determine whether the approximately 300,000 Indians excluded from obtaining guaranteed loans via the Indian Financing Act should be eligible for its benefits and if so, Congress should amend the Act accordingly. (SB)

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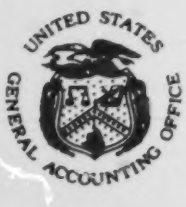

REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

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More Federal Efforts Needed To Improve Indians' Standard Of Living Through Business Development

Federal economic development programs to help Indians achieve a higher standard of living are not working well. The Congress should consolidate the programs under a single agency which should

--identify reservations best suited for profitable businesses,

--carry out a comprehensive business development program, and

--decide for other reservations whether long-term financial assistance should be provided or alternative strategies developed.

The Congress should also determine whether 300,000 Indians excluded from obtaining guaranteed loans under the Indian Financing Act should be eligible for its benefits. If so, the act should be amended to include them.

Rc 01 1269

CED-78-50

FEBRUARY 15, 1978

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114868

The Honorable Robert C. Byrd, Chairman
Subcommittee on the Department of
Interior and Related Agencies
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

This is one of a series of reports in response to your request of August 9, 1977, asking us to make a comprehensive review of the Bureau of Indians Affairs programs and processes. This report points out that to help Indians achieve a higher standard of living, Federal agencies need to (1) identify through feasibility studies reservations most likely to support profitable businesses and carry out a comprehensive business development program and (2) decide for other reservations whether long-term financial assistance should be provided for business development or whether alternative strategies should be developed to improve the living standard of Indians. It also recommends that the Congress consolidate Federal Indian economic development programs and place them in a single agency.

In accordance with a request from your office, we have not obtained written agency comments. However, we have informally discussed our findings with agency officials.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from the date of the report. At that time, we will send copies to interested parties and make copies available to others on request.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE SUBCOMMITTEE ON THE DEPARTMENT OF INTERIOR AND RELATED AGENCIES, SENATE COMMITTEE ON APPROPRIATIONS

MORE FEDERAL EFFORTS NEEDED TO IMPROVE INDIANS' STANDARD OF LIVING THROUGH BUSINESS DEVELOPMENT

D I G E S T

Profitable businesses are needed on reservations to help Indians overcome cultural and economic barriers, become self-sufficient, and achieve a standard of living comparable to that enjoyed by non-Indians in neighboring communities. (See pp. 4 and 5.)

Eight Federal agencies administering 25 grant, loan, and technical assistance programs have not been very successful in helping them. (See pp. 46 to 50.)

Indian reservations generally are not well suited for the development of profitable businesses. Some of them have little, if any, potential for success without long-term Federal financial and technical assistance. The Economic Development Administration and the Bureau of Indian Affairs should make comprehensive economic feasibility studies to determine which ones

--need only initial Federal financial assistance,

--need long-term Federal financial assistance, and

--require alternative strategies to improve Indian living standards. (See p. 4.)

From fiscal years 1975 through 1977, the Economic Development Administration and the Bureau, through loans and grants, provided $294 million to help establish businesses on Indian reservations. EDA financed 45 industrial parks to help attract businesses to Indian reservations. As of November 1977, 38 of these parks had two or less businesses operating in them compared with May 1973 when 19 of 26 parks had two or less businesses. Further, during the period May 1973 to November 1977, Indian employment decreased by 1,041 from 2,246 to 1,205. (See p. 4.)

Other Federal agencies provided financing totaling $77.5 million for 18 major economic development projects that were experiencing financial trouble in November 1977. Federal and tribal investments, as well as Indian employment opportunities, were in danger of being lost. (See p. 4.)

The Economic Development Administration and the Bureau should (1) aggressively promote business development on reservations where potential for success exists, (2) provide financial assistance to promising businesses, and (3) provide technical and managerial assistance to businesses to help them become self-sustaining. Unless this is done, it will be difficult for reservation Indians to have the economic opportunity available to the rest of the Nation's citizens. (See p. 5.)

GAO recommends that the Secretaries of Commerce and the Interior direct the Administrator, Economic Development Administration, and the Assistant Secretary for Indian Affairs to cooperatively:

--Conduct an economic feasibility study that identifies reservations most likely to support self-sustaining economic development and carry out a comprehensive business development program including (1) pursuing businesses to locate on reservations, (2) providing them initial financial assistance, and (3) assisting them in becoming self-sustaining, profitable enterprises.

--Decide whether long-term Federal support should be provided to develop other reservations or whether alternative strategies are needed to improve the living standard of Indians living on reservations that lack potential for successful business development. If so, new strategies should be developed and proposed to the Congress for implementing authority and funding. (See p. 23.)

The Indian Financing Act of 1974 was enacted by the Congress to stimulate economic development on Indian reservations by increasing the availability of funds to individual Indians and tribes for starting and expanding business enterprises. The Bureau, which administers the act, approved through September 30, 1977, approximately 1,900 loans and grants totaling about $106 million. (See pp. 24 and 25.) However, deficiencies in the Bureau's administration caused the loan and grant programs to suffer from

--delinquencies,

--inadequate accounting systems,

--poor analysis of loan and grant applications,

--missing documents in loan and grant files,

--inadequate loan servicing by lenders,

--short repayment terms, and

--limited provision of technical assistance to businesses.

Further, the Bureau did not enter into any loan insurance agreements with lenders and is unsure why lenders are reluctant to participate in this loan program. (See p. 27.)

GAO recommends that the Secretary of the Interior direct the Assistant Secretary for Indian Affairs to

--establish specific procedures and guidelines to preclude making revolving fund loans to tribal relending organizations that have experienced continuous problems;

--take the necessary action to correct deficiencies in the revolving loan fund's automated accounting system;

--make sure that the required documentation is obtained, accurate, and evaluated by the Bureau before making or guaranteeing loans and grants;

--establish a policy restricting participation in the guaranteed loan program to only private lenders that demonstrate adequate loan-servicing capability;

--make sure that necessary technical and management assistance is promptly identified and provided; and

--concentrate on identifying and correcting deficiencies in the grant computer system, including requiring that each agency obtain the necessary information reports from its grantees.

The Assistant Secretary should review the Bureau's policy of allowing lenders to require short repayment terms on guaranteed loans. He should change the policy if it is not consistent with normal loan practices and places an an unreasonable financial burden on the loan applicant. He should also determine why there have been no insured loan agreements, the effect this has on hindering the development of Indian businesses, and what action is needed to make the loan program viable. (See p. 45.)

The Department of the Interior's Office of Audit and Investigation estimates that 300,000 Indians are not eligible for guaranteed loans under the Indian Financing Act because section 201 of the act prohibits participation of Indians who are members of or eligible for membership in an Indian organization that makes loans to its members. Since the rationale for this restriction is unclear, GAO recommends that the Congress determine whether or not this restrictive provision should continue and, if not, amend the act to allow such participation. (See pp. 44 and 45.)

Federal programs or activities for business development on Indian reservations are scattered throughout Federal departments and agencies.

GAO believes that a single agency should be responsible for managing Federal programs for Indian business development. The American

Indian Policy Review Commission agreed. (See p. 57.)

GAO recommends that the Congress consolidate Federal Indian economic development programs and place them in a single agency. This agency would be in a much better position to implement GAO's other recommendations. (See p. 58.)

FORMAL REVIEW AND COMMENTS NOT OBTAINED

At the request of the Chairman, Subcommittee on the Department of Interior and Related Agencies, Senate Committee on Appropriations, GAO did not submit this report to the agencies for formal review and comments. However, responsible agency officials were given copies of the report and their informal comments have been considered.

Bureau officials agreed with GAO's recommendations but said that implementing them would require increased funding and staffing. Economic Development Administration officials said that because of problems they have had coordinating their economic development programs with other Federal agencies, implementing some of GAO's recommendations would not be effective unless all Indian economic development programs were placed in a single agency, as GAO recommends. (See p. 23.)

Contents

CHAPTER		Page
DIGEST		i
1	INTRODUCTION	1
	Federal Indian business development efforts	1
	Scope of review	2
2	MORE CAN BE DONE TO HELP ESTABLISH PROFITABLE BUSINESSES ON RESERVATIONS	4
	Little potential for successful business development	5
	Economic feasibility studies of Indian reservations needed	8
	Need for more aggressive promotional efforts	10
	Federal agencies need to provide assistance to businesses	15
	Conclusions	22
	Recommendations to the Secretaries of Commerce and the Interior	23
	Informal agency comments	23
3	BETTER MANAGEMENT OF INDIAN FINANCING ACT PROGRAMS NEEDED	24
	The Indian Financing Act	24
	Status of loans and grants	25
	Program management deficiencies	30
	Legislative restriction affecting program availability	43
	Conclusions	44
	Recommendations to the Secretary of the Interior	45
	Recommendation to the Congress	45
4	INDIAN BUSINESS DEVELOPMENT--MANY FEDERAL AGENCIES, NO FOCAL POINT	46
	Bureau of Indian Affairs	46
	Department of Commerce	47
	Department of Agriculture	48
	Small Business Administration	49
	Department of Health, Education, and Welfare	49
	Overview of Federal programs	50
	Recommendation in our 1975 report	53

CHAPTER		Page
4	Other studies	56
	Conclusions	57
	Recommendation to the Congress	58
APPENDIX		
I	Digest of Comptroller General's report to the Congress entitled "Improving Federally Assisted Business Development on Indian Reservations" (B-114868, June 27, 1975)	59
II	Reports issued on the Indian Financing Act program	62

ABBREVIATIONS

ANA	Administration for Native Americans
BIA	Bureau of Indian Affairs
CSA	Community Services Administration
EDA	Economic Development Administration
FmHA	Farmers Home Administration
GAO	General Accounting Office
OAI	Office of Audit and Investigation
OMB	Office of Management and Budget
OMBE	Office of Minority Business Enterprise
RDS	Rural Development Service
SBA	Small Business Administration
YPO	Young Presidents Organization

CHAPTER 1

INTRODUCTION

On August 9, 1977, the Chairman, Subcommittee on the Department of Interior and Related Agencies, Senate Committee on Appropriations, requested that we make a comprehensive review of the Bureau of Indian Affairs programs and processes and report the results to him by February 15, 1978. This is one of a series of reports in response to that request. This report presents the results of our evaluation of Federal efforts to develop businesses on Indian reservations.

FEDERAL INDIAN BUSINESS DEVELOPMENT EFFORTS

Poor economic conditions, and their adverse effect on the quality to life, are facing about 550,000 Indians living on or near the more than 200 reservations under Federal jurisdiction. The reservations' economic environments are typified by high unemployment and low family income levels. On some reservations, more than 80 percent are unemployed. No matter where Indians live, the pattern is essentially the same--incomes are lower than that of the population at large, and more Indians earn below the poverty level.

A proposed Senate Concurrent Resolution passed by the Senate in 1974, but not passed by the House, stated:

> "It is the sense of the Congress that * * * a major goal of national Indian policy shall be improving the quality and quantity of social and economic development of Indians while maximizing the opportunities for Indian control and self-determination * * * and that Congress will commit itself to the development of programs and services necessary for bringing Indians to social and economic parity with other citizens * * *."

Historically, Indians have been unable to obtain financing from conventional sources, both governmental and private, to support economic and industrial development endeavors. The lack of sufficient capital and established credit ratings as well as a myriad of sociological, legal, and other factors have contributed to this situation.

To combat these problems, a national policy was established in April 1974 by the Indian Financing Act which is:

"* * * to help develop and utilize Indian resources, both physical and human, to a point where the Indians will fully exercise responsibility for the utilization and management of their own resources and where they will enjoy a standard of living from their own productive efforts comparable to that enjoyed by non-Indians in neighboring communities."

Indian business development programs on Indian reservations are one of the major Federal activities directed toward this national policy. Indians can obtain financial and technical assistance for business or economic development from a number of Federal departments and agencies. The primary programs are located in the Department of the Interior's Bureau of Indian Affairs (BIA) and the Department of Commerce's Economic Development Administration (EDA) and Office of Minority Business Enterprise. Other organizations involved to a lesser degree include the Small Business Administration; the Department of Agriculture through Farmers Home Administration and Rural Development Service; and the Community Services Administration and the Administration for Native Americans of the Department of Health, Education, and Welfare.

Unlike BIA programs, which are directed solely to Indian problems, those of other agencies encompass a much larger target population. For example, most Farmers Home Administration programs are intended to help rural areas of the country; the Small Business Administration programs are intended to help all small businesses, including minority owned and operated businesses; and EDA programs are intended to help economically distressed areas, for which special funds are set aside for Indians. Indian reservation assistance is not always viewed separately from that provided other eligible groups or individuals; consequently, total reservation funding cannot be determined readily from agencies other than BIA and EDA.

SCOPE OF REVIEW

In accordance with agreements reached with the Subcommittee, we updated our June 27, 1975, report entitled "Improving Federally Assisted Business Development on Indian Reservations" (CED-75-371) (see app. I) and assessed BIA's implementation of the Indian Financing Act--a program to stimulate economic development on Indian reservations by increasing the availability of funds to individual Indians and tribes for starting and expanding business enterprises. Our review included an examination of Federal records at

various regional and headquarters offices, discussions with Federal and Indian tribal officials, and visits to selected business ventures on Indian reservations.

CHAPTER 2

MORE CAN BE DONE TO HELP ESTABLISH PROFITABLE BUSINESSES ON RESERVATIONS

Studies show that Indian reservations generally are not conducive to the development of profitable businesses, and on some reservations there is little if any potential for successful business development without long-term Federal financial and technical assistance. The reasons why businesses succeed or fail on reservations are numerous and interrelated and involve the nature of the enterprises as well as the inherent characteristics of the reservations. Although these reasons are generally known, EDA and BIA had not recently made comprehensive economic feasibility studies to determine which of the 200 Indian reservations have the potential for self-sufficiency through the establishment of self-sustaining businesses.

Federal agencies must know which reservations have such potential if they are to determine

--which reservations need only initial Federal financial assistance,

--which reservations need long-term Federal financial assistance, and

--which reservations require alternative strategies to improve Indian living standards.

During fiscal years 1975-77, EDA and BIA through loans and grants provided $294 million to help establish businesses on Indian reservations. EDA financed 45 industrial parks to help attract businesses to Indian reservations. As of November 1977, 38 of these parks had two or less businesses operating on them compared to May 1973, when 19 of 26 parks had two or less businesses. Further, during the period May 1973 to November 1977 Indian employment decreased by 1,041 from 2,246 to 1,205.

Various Federal agencies provided financing totaling $77.5 million for 18 major economic development projects on or near Indian reservations. All 18 were experiencing financial trouble in November 1977, and consequently Federal and tribal investments as well as Indian employment opportunities were in danger of being lost.

While many factors hinder business development efforts on Indian reservations, the potential for greater success exists and could be realized if EDA and BIA were to (1) aggressively promote economic development on reservations where potential for success exists, (2) provide financial assistance to promising businesses, and (3) provide technical and managerial assistance to businesses to help them become self-sustaining. Unless this is done, it is unlikely that businesses will locate and operate profitably on reservations having the potential for economic development and it will be difficult to achieve the goal of affording reservation Indians the economic opportunity available to the rest of the Nation's citizens.

In our June 1975 report, "Improving Federally Assisted Business Development on Indian Reservations," (RED-75-371) we recommended that EDA and BIA aggressively pursue businesses to locate on Indian reservations and assist businesses to become self-sustaining. Both agencies agreed to do this, but we found that neither agency has made changes in its procedures to do so.

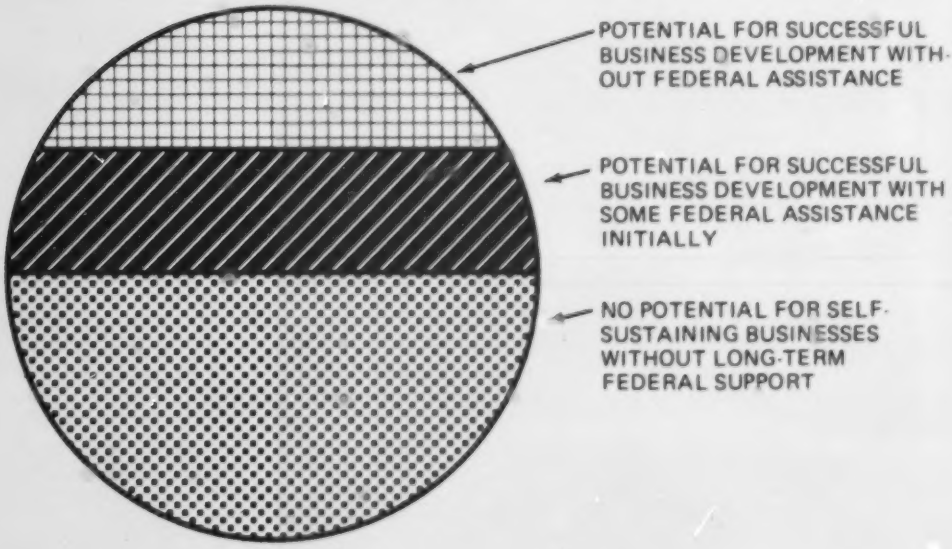
LITTLE POTENTIAL FOR SUCCESSFUL BUSINESS DEVELOPMENT

There are many social and economic factors impeding business development on Indian reservations. The following diagram shows the potential for successful business development on Indian reservations, which was developed after reviewing many studies. We define a successful business as one that is profitable and, therefore, self-sustaining. We are not trying to show exact proportions of economic development potential, but only that they exist and should be considered in planning for self-sufficiency.

It is possible for businesses to move from the middle category to the top, depending on the kind of business and the quality, amount, and timing of Federal assistance. However, some businesses may take some time to shift to self-sufficiency, and some may never do it. It should be recognized that some reservations have little or no potential for attaining self-sufficiency through business development.

According to EDA officials, without the full support of the Indian people themselves, no outside economic development effort can be successful. Tribes must recognize that businesses are highly technical and competitive operations and require a great deal of expertise to become successful. Some tribes do recognize this. However, many do not, feeling that once a business is established on the reservation, it becomes the tool of the tribal council.

CONCEPTUAL PRESENTATION OF BUSINESS DEVELOPMENT
POTENTIAL PROFILE FOR INDIAN RESERVATIONS


POTENTIAL FOR SUCCESSFUL BUSINESS DEVELOPMENT WITHOUT FEDERAL ASSISTANCE
POTENTIAL FOR SUCCESSFUL BUSINESS DEVELOPMENT WITH SOME FEDERAL ASSISTANCE INITIALLY
NO POTENTIAL FOR SELF-SUSTAINING BUSINESSES WITHOUT LONG-TERM FEDERAL SUPPORT

Studies on reservation economic development

Previous GAO reports to the Congress have discussed factors hindering reservation economic development. Our June 27, 1975, report 1/ included such factors as

--competition between reservations and other communities;

--differences between Indians' concept of time, production standards, and absenteeism with those of industry;

--differences in educational attainment between Indians and non-Indians;

--shortages in quantity and quality of job skills;

1/"Improving Federally Assisted Business Development on Indian Reservations," (CED-75-371).

--deficiencies in exploitable natural resources on some reservations;

--difficulties in Indians' obtaining credit because of not being accustomed to ordinary business practices and a lack of management or technical training; and

--physical isolation and poor transportation facilities.

Another GAO report 1/ stated that businesses have not invested on the White Mountain Apache Indian Reservation in Arizona because

--the land is unsuitable for farming or ranching;

--the reservation is 200 miles from the nearest population centers, and transportation is limited;

--the reservation work force is unskilled and considered unstable by some;

--lack of tribal goals and priorities makes it difficult to resolve economic conflicts.

An April 1977 report by the Young Presidents Organization (YPO) 2/ to the Secretary of the Interior on the Indian Financing Act concluded that:

"The desire to establish economic activities on the reservations must face the reality that almost all reservations are lacking in most of the essentials for successful large-scale economic enterprises."

YPO considered the most critical "essentials" to be natural resources, skilled work force, access to capital, and strong management skills.

The Ford Foundation studied 12 EDA-financed tourist facilities on Indian reservations in April and May of 1977. It reported that all are losing money, are underfinanced and

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1/"Better Overall Planning Needed to Improve the Standard of Living of White Mountain Apaches of Arizona," (FGMSD-75-47), Aug. 12, 1975.

2/YPO was founded in 1950 as an international educational association of persons who became presidents of their own companies before age 40. There are 3,300 members in over 45 countries.

incomplete, and lack adequate tourist activities; some need refinancing and lack adequate employee housing nearby; and none have agreed-upon plans to become profitable. (See p. 20.)

ECONOMIC FEASIBILITY STUDIES OF INDIAN RESERVATIONS NEEDED

Although the reasons why businesses fail on reservations are generally known, EDA and BIA had not recently made comprehensive economic feasibility studies to determine which of the 200 Indian reservations have the potential for self-sufficiency through the establishment of self-sustaining businesses.

In 1967 EDA did establish a selected Indian reservation program to carry out comprehensive development on selected Indian reservations considered most likely to achieve self-sustaining economic development through the proper use of Federal assistance. EDA discontinued its selected Indian reservation program because of the pressures of demand from other reservations for its development funds. BIA's Division of Indian Business Enterprise recently proposed to make economic feasibility studies for all reservations but is unable to do so because of limited resources.

EDA-selected Indian reservation program

In 1967 EDA established a program to carry out comprehensive development on Indian reservations considered most likely to achieve self-sustaining economic development through proper use of Federal assistance. EDA recognized that with the large number of Indian reservations and the limited funds available, its impact on any reservation would be marginal at best if it had to serve them all. EDA decided to concentrate on a selected group of reservations with the greatest perceived potential for sustained economic growth and viability.

EDA considered variations among Indian reservations, such as proximity to major economic centers; general accessibility; climate; availability of exploitable natural resources; size, composition, and skills of the labor force; entrepreneurial skills; attitudes toward economic development; availability of capital and financial assistance; stability; and commitment of tribal leadership. All these factors affect reservation development. Consequently, no single strategy will have universal applicability. However, there are certain issues common to most--if not all--reservations, which can serve as a base on which to build reservation-specific strategies.

EDA determined that certain factors contribute to produce and sustain reservation poverty. The factors include:

--Cultural values. Indian traditions lack entrepreneurial and managerial values, and consequently an entrepreneurial class has never developed. Indians, by and large, are not used to thinking in terms of moneymaking schemes and so creating self-sustaining business ventures does not come easily to them.

--Sense of community. Indians generally have a stronger sense of community than do most other Americans. Thus, communal business activities and projects involving tribal ownership are more relevant on Indian reservations than in other economic situations.

--Isolation. Most tribes are isolated geographically as well as culturally from the rest of American society. This isolation creates problems of access to markets, capital, entrepreneurial ideas, and management resources.

--Relationship with the land. Indian culture, religion, tradition, and economic pursuits have been largely land based. Accordingly, American Indians are more sensitive to the natural environment and its preservation than are most other groups within the Nation. Moreover, land is currently allotted to the Indian through a series of treaties and legislation, representing his major remaining link with his cultural heritage. Therefore, the Indian views any activity affecting the use of his land with considerable caution and suspicion. While Indians as a group are not land poor, their land is largely of poor quality.

--Political history. Historically, the white man, eager for personal gain, often took advantage of the Indian. The economic plight of many tribes today stems from past exploitation by the white man. The past Indian-white relationship makes it difficult for the two groups to build economic partnerships. However, white society has most of the managerial and entrepreneurial skills and most of the investment capital that Indians need for economic development. Therefore, Indians need to

develop productive relationships with white persons to gain access to the resources they need for economic development and self-sufficiency.

EDA concluded that reservation development is both unique and difficult. Solutions that have been tested and found successful in other rural areas may be clearly inappropriate for reservations.

EDA discontinued its selected Indian reservation programs because of demands from other reservations for its development funds.

BIA concerned about need for economic feasibility studies

Officials of BIA's Division of Business and Economic Development recognized the importance of economic feasibility studies of Indian reservations. The division chief told us that he had asked for $140 million for feasibility studies to begin in 1979 and for additional funds to do economic and resource surveys on Indian reservations.

The division chief said that as a basic starting point there must be an inventory of economic resources on all reservations in order to formulate specific development plans for individual reservations. He added that little real progress can be made until feasibility is determined. He gave us a copy of his proposal in which he discussed the need for a $25 million appropriation for comprehensive economic surveys of Indian reservations by nationally recognized firms to assess resources, capability, and viability for development. However, he said his proposal was not approved by BIA.

NEED FOR MORE AGGRESSIVE PROMOTIONAL EFFORTS

BIA and EDA have programs to attract businesses to EDA-financed industrial parks. 1/ The number of parks has

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1/Industrial parks consist of an area that is zoned industrial and developed to attract business and allow planned growth. The 42 completed parks ranged in size from 4 acres to 572 acres and averaged about 94 acres. Total improved acreage averaged about 70 acres. Park development varies by EDA region but, as a minimum, should include the provision for two or more facilities on the park (for example, sewer and water lines, or access road and railroad spur, etc.).

increased from 37 in 1973 to 45 in 1977, but during this period vacancies and Indian unemployment have increased. Information was not readily available to determine specifically why this happened, but we did note that BIA's and EDA's promotional efforts have been limited.

Vacancies and unemployment in industrial parks have increased

As of May 1973, EDA had financed construction of 37 industrial parks for $16.03 million to induce businesses to locate on Indian reservations. As of May 1973 only 26 of the parks were completed. The parks contained 44 operating businesses employing 2,824 people, of which 2,246 were Indians.

Until November 1973, EDA and the tribes relied primarily on BIA to attract new or existing businesses to the reservations. EDA attempted to supplement BIA's efforts by using consultants to conduct promotional mail campaigns but concluded that the results were poor. EDA also concluded that BIA had not adequately promoted EDA-financed industrial parks, so it established an in-house effort.

EDA began its business promotion efforts in November 1973. Since that time, EDA financed construction of eight additional industrial parks and expanded two others. As of November 1977, EDA had spent $18.08 million to construct 45 industrial parks. In spite of this effort, Indian employment has decreased whereas non-Indian employment has increased, as shown by the following table.

Date	Employment		
	Total	Indian	Non-Indian
May 1973	2,824	2,246	578
November 1977	2,043	1,205	831

Sixteen industrial parks have been completed since June 1975 that did not have businesses operating on them as of November 1977. This is 11 more vacant parks than existed in May 1973 when only 5 were vacant. A comparison of the number of operating businesses per industrial parks as of May 1973 and November 1977 follows.

Number of operating businesses per industrial park	Number of industrial parks As of May 1973	As of November 1977
0	5	16
1	11	12
2	3	10
3	4	1
4	1	1
5	2	1
6	-	-
7	-	-
8	-	-
9	-	1
Total	26	42
Industrial parks not completed	11	3
Total EDA-financed industrial parks	37	45

Business development efforts have not been aggressive

A primary reason that more businesses have not located on Indian industrial parks is that BIA's and EDA's efforts are still limited. EDA's efforts were directed toward locating businesses on its industrial parks. However, the occupancy rates of reservation industrial parks and the decline in employment indicated that the overall success of the promotion program has been poor.

When EDA began its own promotion efforts in November 1973, it had a staff of three trying to encourage businesses to locate on its industrial parks. As of February 1978, EDA still had only a staff of three. According to an EDA official, the staff performs a full array of functions found in any active industrial development program, such as direct mail campaigns for industrial prospecting, personal calls on company management, and accompanying company managers on site visits to reservations.

This staff had identified businesses which could be self-sustaining if located on EDA-financed industrial parks. However, EDA headquarters officials noted that EDA has had problems encouraging businesses to locate on its industrial parks because private financing of buildings and equipment was difficult to obtain. One reason is that lenders must go through Federal courts to take possession of properties when borrowers have defaulted on their loans, which is costly and time consuming.

BIA had reduced its staff involved in encouraging businesses to locate on Indian reservations. The following table shows that in January 1974 there were 29 full- and part-time professional staff located in Washington, D.C., and in the field, but only 13 as of November 1977.

	BIA staff involved in encouraging businesses to locate on Indian reservations	
	January 1974	October 1977
Washington headquarters:		
Full-time	7	7
Part-time	2	-
Field	20	6
Total	29	13

According to the official in charge of BIA's efforts, the staffing reductions occurred because personnel ceilings were lowered and the division's budget was reduced. He said that a staff of 61 would be needed to do an effective job. The reduced staff is responsible not only for encouraging businesses to locate on Indian reservations but also for helping to determine the feasibility of proposed business ventures to be financed through the Indian Financing Act. (See p. 24.)

More aggressive efforts can be successful

Businesses can be encouraged to locate on EDA-financed industrial parks if their managers aggressively promote them. For example, one industrial park, Park A, located in Arizona was constructed in 1970 and expanded in 1976. EDA spent $1.6 million to develop the park. As of November 1977, nine businesses, employing 457 people of which 122 were Indians, were operating on the industrial park. In addition, four other firms were constructing plants on the park.

The manager of the park said that, if aggressively pursued, businesses can be encouraged to locate on industrial parks. Most of the prospects for locating on the industrial park came from the manager's own private sources, such as local banks, friends, and the railroad that services the park. Some prospects came from EDA; only a few came from BIA. He said this occurred because EDA and BIA have only a limited staff available for encouraging businesses to locate on Indian reservations.

The park manager also said that local financing of plants and equipment can be obtained for park tenants if the park manager has a good rapport with the local financial

community and if the proposed tenants have a good credit history. Local sources were being used to finanace plant construction for three of the four firms. The fourth firm's plant was financed through a Farmers Home Administration loan guarantee.

The other two industrial parks on the same reservation, constructed in 1969, were not as successful as Park A. EDA provided more than $1.5 million to construct these parks. Total employment on the parks has fallen from 221 in May 1973, of which 77 were Indians, to 161 in November 1977, of which 57 were Indians. The following schedule shows the status of the two industrial parks.

		Firms operating		Employment			
				May 1973		Nov. 1977	
	Cost	May 1973	Nov. 1977	Total	Indian	Total	Indian
Park B	$ 525,000	1	2	28	18	21	19
Park C	997,335	3	2	193	59	139	38
Total	$1,502,355	4	4	221	77	161	57

The EDA representative for the State of Arizona told us that the primary reason these two industrial parks were not as successful as Park A was that they were not aggressive or professional in their efforts to attract businesses. The Park A manager confirmed this, stating that recently the manager of Park C acted unprofessionally in dealings with one potential tenant and failed to send promised promotional materials to another.

The EDA representative for the State of Arizona also said that EDA's efforts to encourage businesses to locate on Parks B and C have been constrained by the small staff in EDA's Washington headquarters. The limited staff was responsible for promoting all of the 45 parks EDA had financed.

We reported similar problems in 1975

In our prior report (see p. 6), we found that Federal efforts to encourage businesses to locate on Indian reservations need to be aggressive and coordinated. Specifically, we recommended that to increase effectiveness of the Indian reservation promotion program, the Director of the Office of Management and Budget work with the Secretaries of the Interior, Commerce, and Agriculture; the Administrator of

the Small Business Administration; and other agency heads he deems appropriate to establish an interagency committee to

--identify industries most likely to consider locating on a reservation,

--aggressively encourage and assist those firms identified as having an interest in locating on a reservation, and

--insure the availability of current promotional literature and materials.

Discussions with officials from each of these agencies or departments revealed that no such interagency committee was ever formed. Since that report, neither BIA nor EDA has made major changes in their procedures for promoting business on Indian reservations, even though they agreed to do so. These two agencies have continued to administer their programs independently and have established no means to interrelate their efforts.

FEDERAL AGENCIES NEED TO PROVIDE ASSISTANCE TO BUSINESSES

EDA, BIA, Small Business Administration (SBA), Farmers Home Administration (FmHA), and Community Services Administration (CSA) spent about $25.4 million from fiscal year 1967 to November 1977 to fund six of the major economic development efforts we reviewed. These projects were located on six reservations. All six were experiencing financial difficulty as of November 1977. Consequently, 391 permanent employment opportunities and the Federal and tribal investments are in danger of being lost.

The projects had various problems, including poor management, inadequate financing, unsalable products, and high operating costs. The Federal agencies did little to help identify the problems, even though they have existed for some time. The Federal agencies had current financial records for only one of the businesses they funded or were assisting. When technical or managerial assistance was provided, it was provided after the businesses had lost considerable amounts of funds.

By the very nature of EDA and BIA programs, the Federal agencies financed businesses which could not qualify for financing from commercial lenders. Thus, there is a strong need for the Federal agencies to continue monitoring these businesses to help them succeed. Neither of the agencies feel, however, that it is their responsibility to assist an Indian business unless the business asks for help.

We reported similar problems in our 1975 report. At that time, however, BIA was not deeply involved in funding business ventures. This situation changed with passage of the Indian Financing Act. Now that BIA is financing business ventures, our earlier observations also apply to BIA.

Federally financed projects not self-sustaining

We believe the operating difficulties encountered by Indian businesses we reviewed illustrate the need for the agencies to monitor federally financed businesses to help them become self-sustaining. Following are examples of what we found.

6,300-acre tribal farm

BIA, EDA, and FmHA provided over $3.4 million in loans and grants to fund this tribal farm. These funds were used to purchase farmlands and equipment; construct grain storage facilities, machine shops, and farm buildings; and prepare farmlands for planting. The tribal farm was to provide Indians with employment opportunities and business skills and to produce income for the tribe.

As of November 1977, the farm permanently employed 12 people of which 9 were Indians, but it has not been financially successful. The tribal farm lost $230,006 in 1975 and $164,532 in 1976. Through August 1977, drought situations helped to cause the farm to lose $324,118, and continued losses are forecasted for 1978 and 1979.

To offset these losses and provide for operating expenses, BIA loaned the tribal farm $800,000 in 1977. The farm requested another loan for $300,000 for operating expenses for 1978. BIA's Portland area office was evaluating the loan request at the time of our review. The tribal farm's manager told us that if BIA denies the loan, the farm will have to stop its operations because it has no alternative source of funds.

BIA and EDA have not been monitoring this enterprise. EDA's files had no information about the tribal farm's current status, and BIA had to request financial information from the tribal farm for us. In January 1977 not all of the funds lent by BIA were used to pay future operating expenses. Instead, $495,597 was used to pay outstanding bills, debt, and rent to the tribe. At the time of our review, BIA did not know how the tribal farm used the remaining funds.

2,500-acre tribal farm

This tribal farm was established to provide continuous income to the tribe and employment opportunities to the Indian people. EDA and BIA provided $1.5 million in loans and grants to establish and operate the tribal farm.

This farm also was not self-sustaining. It employed four Indians. The farm's records showed that for the period ended November 1977, it sold $403,295 of crops and incurred operating expenses of $677,196. The tribal farm operations have been subsidized by the tribe to the extent that the operating expenses did not include the manager's salary or adequate compensation for leasing tribal lands. BIA officials advised that the manager's cost is picked up by EDA and the land should lease for at least $35,000 annually, not the $6,238 which is shown on the farm's records. Another $314,628 of crops held in storage remained to be sold and may contribute to the farm's net income. There were, however, $109,906 of seed purchases and administrative, insurance, and other miscellaneous expenses budgeted by the farm which have yet to be incurred.

A BIA area credit official advised that it was difficult to monitor the farm's operation because BIA has not obtained the necessary financial records as required. In order to facilitate our evaluation of this operation, BIA had to make a special request to the farm for a correct financial report. EDA's files also did not contain information about the farm's operations.

Resort complex

EDA, between fiscal years 1967 and 1975, provided $5.59 million in loans, grants, and technical assistance to redesign, construct, and expand this resort. The tribally financed credit program lent the resort $900,000, and the tribe invested $2.98 million to help construct and operate the resort.

The resort was established to provide job opportunities to the Indian people, develop the reservation's recreation resources, and provide income to the tribe. As of September 1977, the resort employed 267, of which 59 were tribal members. However, the resort has not been a financial success. Through October 1977, the resort lost $687,844 for the year and has lost $4,532,600 since it was opened. The resort also owes the tribally financed credit program $173,250 in interest and $366,502 in interest on the $2.4 million EDA loan.

Though the resort was expanded from 90 to 145 rooms in 1976 to make it economically viable, tribal officials want to expand it again. Tribal and BIA officials said that the resort is not making a profit because it cannot attract enough tourists to cover its operating expenses. In order to attract more people, an additional 65 rooms are needed to allow large conventions to use the facilities. Support facilities (such as indoor tennis, racquetball, and handball courts; ice skating facilities; and a larger golf course) will also be needed to entertain the resort's clients. In addition, banquet facilities, meeting rooms, and the lounge need to be expanded to handle the additional clientele. The cost of these additional facilities has not been estimated, nor has an evaluation been made to assess whether adding to the resort will make it self-sustaining.

In his August 1977 report, a consultant to BIA noted similiar problems at the resort. The consultant also evaluated the operations of 11 other tourist facilities, and his findings are discussed on page 20.

Metal products enterprise

This enterprise was established in October 1969 and began operations in Februray 1970 when the tribe lent the firm's owner $40,000 to commence production of metal carrying cases for rifles, cameras, tools, and camping gear. In December 1971 the tribe canceled half of the $40,000 indebtedness in exchange for 60 percent ownership of the enterprise. The tribe supported the enterprise to provide itself with income and job opportunities for tribal members. BIA, Office of Minority Business Enterprise (OMBE), SBA, and a State agency have provided more than $439,000 for operating capital, new facilities, and technical assistance.

In March 1976, during testimony before the Subcommittee on the Department of Interior and Related Agencies of the House Committee on Appropriations, the Commissioner of Indian Affairs cited this enterprise as an example of Federal agencies working together to make this a successful business. The enterprise employed nine, three of which were Indians, but has not been a financial success. Through October 1977, the enterprise had net losses of $662,792. Various consultants have been employed to evaluate the enterprise's operations and have reported that the losses came about because the enterprise was (1) producing products for which there either was no substantial market or where the competition was fierce and (2) selling some products for less than they cost to produce.

To keep the enterprise operating, BIA has been requested to extend the repayment of its $100,000 working capital loan. BIA was evaluating the enterprise's request at the time of our audit.

The enterprise also asked BIA for $67,000 of technical and management assistance. The enterprise's manager advised that (1) a $20,000 technical assistance grant would be used to help the firm learn to bid for work, (2) a $25,000 grant would be used to assess feasibility of selling the enterprise's products by direct mail, and (3) another $22,000 grant would be used to purchase equipment. He said that if BIA did not provide the first two grants, the business would probably have to cease operations on February 1, 1978. A BIA credit official said that BIA will provide technical and marketing assistance to the enterprise but will probably not provide additional funds to keep it operating until the marketing study has been completed.

Indian fish company

This company was established to purchase fish from Indian fishermen, provide income for various tribal activities, and provide employment opportunities for the Indian people. BIA has loaned $350,000 to the company for working capital, and the tribe has invested $462,387. EDA has provided $39,000 for technical assistance.

The company employs 24 Indians but from its inception through July 1977 lost $199,791. For the year ending July 1977, the company's financial records showed a net income of $4,818. However, depreciation on $502,594 of property, plant, and equipment was not included as a cost of doing business. BIA did not have copies of the company's most current financial records but, at our request, obtained them for us.

The company's financial records showed that its operating expenses exceeded income.

Aquaculture and seafood marketing business 1/

Since 1969 EDA, CSA, and BIA have provided over $14.3 million in loans and grants to establish this business. The

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1/Cultivating of fish and shellfish under controlled conditions.

Federal funds have been used to construct aquaculture facilities, provide working capital, and obtain managerial and technical assistance. The business was established to provide employment opportunities and business skills and to create income for the tribe.

The business employs 75 Indians, but it needs Federal funds to stay in operation. During 1976 it lost $1.2 million and through October 1977 it lost another $836,204. The business requested a grant of $3.5 million for 1978 and 1979 from CSA, stating that it projects losses of $1.17 million from operations during these periods. Tribal officials said the $3.5 million will be used to offset the projected losses and that Federal funds are needed to keep the businesses operating during the next 4 years.

The business continues to lose money because (1) it has produced products for limited markets and (2) its expenses have exceeded revenues.

Observations made by another study

During April and May 1977, a consultant of the Ford Foundation conducted a study of 12 EDA-financed tourist facilities on Indian reservations. These 12 projects received $36.3 million of EDA funds and $15.8 million from the tribes and private sources. The funds from EDA represent 59 percent of its total investment in all federally financed tourism projects.

The consultant's observations about these tourism projects were released in August 1977 and stated that:

--All were losing money.

--All were underfinanced and incomplete.

--Some were badly in need of refinancing. These projects were not close to breaking even, were not "commercial," and should have not been financed by loans.

--None had an agreed-upon plan for becoming self-sustaining.

--Of the 10 projects still operating, 8 lacked adequate daytime activities for tourists, and all 10 lacked nighttime activities.

--Of the 10 projects still in operation, 4 were adversely affected by lack of adequate worker housing nearby.

--Half of the 12 projects had no feasibility studies; most of those that were made were weak, at best, and one study recommended against the project but it was pushed ahead anyway.

The consultant placed the blame for these failures on Federal agencies (principally EDA), consultants, planners, architects, and Indians.

The consultant stated that to make 11 of the projects self-sustaining, the following would be needed:

--$40 million of capital improvements.

--Refinancing of $4.2 million of EDA loans.

--$8.4 million for management and promotion subsidies.

BIA was evaluating the consultant's report to decide what to do. EDA established a task force with the American Indian Travel Commission to determine if a problem exists and, if so, what to do. The task force's report is scheduled for completion by November 1978.

Similar problems were reported in our 1975 report

We reported that Federal agencies should monitor these business ventures to promptly identify deficiencies and provide assistance to correct them before they become severe enough to halt operations.

We stated that the effectiveness of technical assistance depends on the cooperative arrangements among Federal agencies to evaluate and monitor business and commercial development projects. This should include all procedures that provide:

--Critical evaluation by the funding agency with well-documented recommendations of actions needed to correct any identified problems that might adversely affect the business.

--Clear documentation of the basis for financing any venture for which problems have been identified but not resolved.

--A plan for monitoring the business venture and for providing technical assistance to promptly identify and resolve problems that occur, particularly during early stages of operation.

--Followup to insure that the procedures are properly implemented.

We recommended that Federal agencies establish procedures to monitor and provide competent technical assistance to businesses receiving Federal financial assistance.

Discussions with Federal officials revealed that they have not made any major changes in their procedures of monitoring business operations on Indian reservations, even though they agreed to do so.

CONCLUSIONS

Many social and economic factors impede business development on Indian reservations. Some reservations have little if any potential for successful business development without long-term Federal financial and technical assistance. We believe that Federal agencies need to make comprehensive economic feasibility studies to determine which reservations have the potential for self-sufficiency through establishment of self-sustaining businesses with initial Federal assistance. For other reservations, Federal agencies need to decide to (1) provide long-term Federal support or else (2) develop alternative strategies for raising the living standard of Indians.

While many factors hinder business development efforts on Indian reservations, the potential for greater success exists and could be realized if EDA and BIA (1) aggressively promote economic development on reservations where potential success exists, (2) provide financial assistance to promising businesses, and (3) monitor and provide managerial and technical assistance to businesses in trouble to help them become self-sustaining. Unless this is done, tribes will continue to have trouble attracting profitable businesses to reservations and the goal of affording reservation Indians the economic equality comparable to the rest of the Nation's citizens will be difficult to achieve.

In our June 1975 report we recommended that Federal agencies aggressively pursue businesses to locate on Indian reservations and help them become self-sustaining, but our recommendations have not been fully implemented.

RECOMMENDATIONS TO THE SECRETARIES OF COMMERCE AND THE INTERIOR

We recommend that the Secretaries of Commerce and the Interior direct the Administrator, EDA, and the Assistant Secretary for Indian Affairs to work together to:

--Conduct an economic feasibility study that identifies reservations considered most likely to support self-sustaining economic development and carry out a comprehensive business development program including (1) aggressively pursuing promising businesses to locate on reservations, (2) providing them initial financial assistance, and (3) assisting them in becoming self-sustaining, profitable enterprises.

--Decide whether long-term Federal support should be provided to economically develop other reservations or whether alternative strategies are needed to improve the living standards of Indians living on reservations that lack potential for successful business development, and if so, develop new strategies and propose them to the Congress for implementing authority and funding.

INFORMAL AGENCY COMMENTS

BIA officials agreed with our recommendations but said that implementing them would take increased funding and staffing.

EDA officials said that BIA and EDA have both amassed a great deal of detail on Indian reservation development potential but it cannot be more broadly utilized under the present fragmented organization for Indian economic development. They stated that such studies can be effective only where the responsibility for Indian economic development rests with one agency which would speak authoritatively about acquisition and direction of resources in implementing strategies indicated by the studies. We have made this recommendation on page 58.

CHAPTER 3

BETTER MANAGEMENT OF INDIAN FINANCING ACT PROGRAMS NEEDED

The Indian Financing Act was enacted by the Congress in 1974 to stimulate economic development on Indian reservations by increasing availability of funds to individual Indians and tribes for starting and expanding business enterprises. BIA, which administers the act, approved through September 30, 1977, 1,866 loans and grants totaling $106.3 million.

The administration of the Indian Financing Act and its impact on Indian economic development has been the subject of recent studies. 1/ These studies and our work indicate that BIA needs better management controls and procedures over loans and grants made to individual Indians and tribes. The loan and grant programs suffer from

--delinquencies,

--inadequate accounting systems,

--poor analysis of loan and grant applications,

--missing documents in loan and grant files,

--inadequate loan servicing by lenders,

--short repayment terms, and

--limited provision of technical assistance to businesses.

In addition, a legislative restriction limits participation in the guaranteed loan program.

THE INDIAN FINANCING ACT

Concerned by the lack of economic development financing available to individual Indians and Indian organizations, the Congress passed the Indian Financing Act (25 U.S.C. 1451 et seq.) which was approved on April 12, 1974, by the

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1/See app. II for a listing of studies of the Indian Financing Act.

then-President. The primary objective of the act is to stimulate economic development on Indian reservations by increasing the availability of funds to individual Indians and tribes for starting and expanding business enterprises on or near reservations. The act consolidated several existing Indian revolving loan funds and established an Indian Loan Guaranty and Insurance Program and an Indian Business Development Grant Program. In addition, the act authorizes payment of interest subsidies to private lenders on loans, guaranteed or insured, and requires that loan and grant applicants be provided competent management and technical assistance.

BIA administers the Indian Financing Act through its credit and finance staff in the central, area, and agency offices. BIA's central office controls allocation of program funds to the area offices and maintains approval authority over the Loan Guaranty and Insurance Program. Approval authority for revolving loan funds and Indian Business Development Program grants has generally been delegated to BIA's area offices and, in some instances, has been redelegated to BIA's agency offices.

In 1974 the Congress authorized BIA 72 additional positions to carry out provisions of the act. BIA allocated 67 positions to the area and agency offices and 5 to the central office. As of December 1977 there were approximately 182 authorized full-time positions in the central and field offices assigned to credit operations, including administering provisions of the act. This includes the credit-examining staff located in Denver, Colorado.

STATUS OF LOANS AND GRANTS

The Subcommittee's Office asked us to provide information on the status of loans and grants made under the act. From passage of the act in April 1974 through September 30, 1977, BIA approved 1,866 loans and grants totaling $106.3 million. The following table shows the type, number, and value of loans and grants made by fiscal year during this period.

Total Indian Financing Act Loans and Grants

Made During Fiscal Years 1975-77

Fiscal year	Revolving loan fund		Guaranty and insurance fund		Indian business development grant program		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(dollars in millions)							
1975	58	$ 8.6	-	$ -	594	$ 9.7	652	$ 18.3
1976	83	13.3	50	14.5	671	9.2	804	37.0
1977	56	11.4	46	35.4	a/308	a/4.2	410	51.0
Total	197	$33.3	96	$49.9	1,573	$23.1	1,866	$106.3

a/Final figures for the grant program for fiscal year 1977 were not available as of November 1977.

Revolving loan fund

The revolving loan fund is for loans to Indian tribes and their members to improve and promote economic development on Indian reservations and for educational purposes. As of October 1, 1977, the fund had approximately $21.8 million available with outstanding unallotted commitments and authorized applications totaling about $17.1 million.

During fiscal years 1975-77, $33.3 million was loaned from the Indian revolving loan fund. Of this amount, 52 percent represented loans to Indian corporations and tribes for specific development projects; 33 percent was loaned to tribal relending and credit organizations, which make loans to individuals on reservations. The remaining 15 percent went to agency direct loan programs for loans to individuals who do not have access to tribal relending organizations.

The following table shows the amount of revolving loan funds allocated during fiscal years 1975-77 for each area office.

Use of Indian Revolving Funds by BIA Area

During Fiscal Years 1975-77

BIA area office	Total	Organization	Corporations and tribes	Individuals
	(thousands)			
Aberdeen	$ 6,980.0	$ 5,025.0	$ 1,755.0	$ 200.0
Albuquerque	1,099.8	-	180.0	919.8
Anadarko	237.0	-	-	237.0
Billings	4,468.5	3,035.0	1,248.0	185.5
Eastern	60.0	60.0	-	-
Juneau	2,915.0	715.0	2,200.0	-
Minneapolis	2,461.1	-	2,202.2	258.9
Muskogee	1,737.4	710.0	475.0	552.4
Navajo	2,700.0	-	2,700.0	-
Phoenix	4,724.5	600.0	3,730.0	394.5
Portland	5,829.6	725.0	2,846.6	2,258.0
Sacramento	95.0	-	95.0	-
Total	$33,307.9	$10,870.0	$17,431.8	$5,006.1
	(100%)	(33%)	(52%)	(15%)

Loan Guaranty and Insurance Program

The Indian Loan Guaranty and Insurance Program is used to guarantee and insure loans made by private lenders to Indian tribes and their members for economic enterprises that benefit the economy of an Indian reservation or for housing on a reservation. The act authorized the Secretary of the Interior to guarantee up to 90 percent of unpaid principal and interest on a loan and to insure up to 90 percent of the loss on any one loan to an eligible tribe or Indian. In lieu of the guarantee, the act provides insurance for up to 15 percent of the aggregate insured loans made by a lender. The aggregate of guaranteed or insured loans is limited to $200 million. However, the aggregate of loans to an individual is limited to $100,000 in principal.

By the end of fiscal year 1977, BIA had signed loan guarantee agreements with 108 lenders but had no loan insurance agreements. BIA officials are not sure why lenders are reluctant to participate in the insured program but believe it is due to the limited reimbursement for losses on the aggregate of the total insured loans made by a lender. For example, if BIA signs an insured agreement with a lender for $1 million and the lender makes 10 loans of $100,000 each, the lender can recover only 90 percent of each defaulted loan up to a maximum of $150,000.

BIA officials believe that the insured concept is good because it allows lenders more flexibility in making loans and reduces some of BIA's workload. However, BIA officials did not know what effect the lack of lender participation has had on providing economic development financing to Indians.

The act also authorizes a subsidy on loans insured or guaranteed so that the borrower will have to pay no more interest than the rate set by the Secretary of the Treasury for loans from the Indian revolving loan fund. As of October 1, 1977, this rate was 6-1/2 percent. The act authorized appropriations of $20 million for each of fiscal years 1975, 1976, and 1977 to cover interest subsidies and administrative expenses. Although BIA requested $20 million for each of the 3 years, the Congress appropriated the full amount only for fiscal year 1975 and $10 million and $15 million for fiscal years 1976 and 1977, respectively.

As of October 1, 1977, 96 loans totaling $49.9 million had been guaranteed. BIA officials claim that about 30

guaranteed loan proposals have been disapproved for various reasons since the program's inception. The following table shows the number and amount of guaranteed loans made during fiscal years 1975-77 by each area office.

Total Loans Guaranted by BIA During the Period

Fiscal years 1975-77

BIA area office	Number of loans guaranteed	Total guaranteed amount	Number of loans in default	Unpaid amount
		(dollars in thousands)		
Aberdeen	7	$ 1,355.6	-	$ -
Albuquerque	14	7,380.0	-	-
Anadarko	18	2,175.1	4	204.6
Billings	7	1,128.0	1	66.0
Eastern	8	3,114.9	1	525.0
Juneau	3	27,600.0	-	-
Minneapolis	9	760.6	2	19.7
Muskogee	10	1,433.2	3	832.0
Navajo	-	-	-	-
Phoenix	4	3,024.0	2	945.3
Portland	13	1,768.9	-	-
Sacramento	3	213.4	1	100.0
Total	96	$49,953.7	14	$2,692.6

Of the 96 approved loans, BIA officials stated that 14 (about 15 percent in number and about 5 percent in dollar value) were considered in or near default status. BIA's dollar loss rate appears comparable to other Federal lending programs. For example, during March 1967 to July 1, 1976, SBA experienced a 5-percent dollar loss on its Business 7(a) Loan Program and a 17-percent loss on its Economic Opportunity Loan Program with Indians. The combined program loss was about 10 percent. The loss rate on the number of loans in these categories was not readily available at SBA. Although BIA's dollar loss rate is less than SBA's, it is still too early in the program to make any conclusive comparisons or statements of conditions.

Grant program

The Indian Business Development Program is to stimulate and increase Indian entrepreneurship and employment by providing equity capital through nonremibursable grants of up to $50,000 to Indians and Indian tribes to start or expand businesses on or near reservations. The act authorized appropriations of $10 million for Indian Development grants for each of fiscal years 1975, 1976, and 1977.

In fiscal years 1975-77, BIA approved 1,573 grants totaling $23.2 million. The following table shows by fiscal year and area office the number and amounts of grants approved during fiscal years 1975-77.

Total Grants Made by BIA During Fiscal Years 1975-77

BIA area office	FY 1975		FY 1976		1977 (note a)		Total	
	Number	Amounts	Number	Amounts	Number	Amounts	Number	Amounts
	(dollars in thousands)							
Aberdeen	105	$1,242.8	105	$1,190.4	64	$ 645.2	274	$ 3,078.4
Albuquerque	17	441.2	56	766.3	17	205.2	90	1,412.7
Anadarko	26	442.6	37	489.4	20	226.1	83	1,158.1
Billings	46	834.5	69	813.8	41	479.9	156	2,128.2
Eastern	18	451.9	18	499.2	1	50.0	37	1,001.1
Juneau	36	900.8	44	730.0	-	0.0	80	1,630.8
Minneapolis	69	640.7	91	651.8	42	244.2	202	1,536.7
Muskogee	59	956.1	62	905.7	26	615.4	147	2,477.1
Navajo	41	1,083.2	30	681.6	5	113.9	76	1,878.7
Phoenix	87	1,358.1	100	1,517.1	41	770.3	228	3,645.5
Portland	75	914.0	45	652.0	43	660.1	163	2,226.0
Sacramento	15	458.2	14	319.5	8	213.9	37	991.6
Total	594	$9,724.1	671	$9,216.8	308	$4,224.2	1,573	$23,165.1

a/Final figures for the grant program for fiscal year 1977 were not available as of November 1977.

Two recent studies of the Indian Business Development Grant Program reached different conclusions on its effectiveness. One study was conducted by Mel-Bud Associates, a consultant firm for BIA. In its June 3, 1977, report it concluded that the program's objective of stimulating and creating Indian businesses was being met on the basis of the number of grants made to individuals and corporations and the amount of additional outside funding generated. The basis for the study was statistical data provided by BIA.

In contrast, a study conducted for BIA by the Young Presidents Organization concluded that the grant program was not achieving its objectives and recommended that it be discontinued. This report, issued in April 1977, stated that

> "The grant program has not fulfilled the function intended and there is no reasonable expectation that its continuation will eventually achieve desired results. Most grants seem to have been made on the basis of political pressure and expediency, in the nature of gifts, rather than as part of the package of financing for business development * * *."

As a result of the negative comments on the grant program in the YPO report, BIA was requested by Interior's

Office of Budget to evaluate the grant program and determine if continued funding was warranted.

Continuation of the grant program is in question

On July 20, 1977, the act was amended by extending authorization for appropriations of $14 million into fiscal years 1978 and 1979. However, as of December 1, 1977, the Department of the Interior had not requested funds for the program.

We were told by a Department of the Interior budget official that funds were not requested for fiscal year 1978 and are not included in the fiscal year 1979 budget proposal because the program was not considered a high enough priority to continue funding. This decision was made even though a BIA evaluation report on the grant program was considered favorable by Interior's budget staff. We were told that the Secretary of the Interior sustained the decision when BIA appealed it.

Interior's decision appears to be in conflict with expectations of the House Committee on Interior and Insular Affairs. In its Committee Report dated May 9, 1977, on approving the extension of the grant program, the Committee stated that:

> "If the Administration is not going to seek appropriations for this program for fiscal years 1978 and 1979, the passage of this legislation by Congress would be futile. The Committee fully expects that this program be funded for those 2 fiscal years and that any determination that this program should not be further authorized be left to the Congress."

If Interior does not request funds, some proposed business enterprises will have to find other funding alternatives or possibly not open. For example, approximately $100,000 in grant funds were to provide seed money for Indians opening businesses in a North Dakota shopping center. (See pp. 55 and 56.) However, lack of grant funds may jeopardize these businesses.

PROGRAM MANAGEMENT DEFICIENCIES

There is a need for better management controls and procedures over making loans and grants to individual Indians and organizations. We found numerous deficiencies in the administration of the Indian Financing Act. The programs suffer from

delinquencies, questionable prospects of loan repayment, poor accountability because of an inadequate accounting system, inadequately documented loan and grant files, poor analysis of loan and grant applications, inadequate loan servicing by lender, unreliable reporting system, and provision of limited technical assistance to businesses.

Relending agencies have high delinquency rates

Contrary to its stated policy, BIA made direct loans from the Indian revolving loan fund to relending organizations with continuous high delinquency rates.

We reviewed BIA examiner reports on the operations of 14 relending organization loan programs. The reports indicated that the organizations made many kinds of loans and that the number of delinquent loans was excessive. The percentage of delinquent loans ranged from 27 to 80 percent, although percentage of the dollar amount delinquent was considerably less (2 to 71 percent).

Delinquency Rates of Selected Relending Organizations

BIA area office	Date of examiners report	Percentage of dollar amount	Percentage of loans delinquent
Aberdeen	4/76	17	57
Aberdeen	9/76	18	47
Aberdeen	2/77	38	43
Albuquerque	10/76	6	33
Billings	6/77	71	74
Eastern	12/76	2	80
Eastern	2/77	2	35
Muskogee	6/77	3	40
Phoenix	3/77	8	59
Portland	6/77	22	27
Portland	5/77	30	50
Portland	3/77	7	58
Portland	2/77	14	73

In some cases, the examiners' reports indicated that many of the loans were delinquent in excess of 90 days and that

collection efforts appeared minimal. One credit program was placed under a moratorium until it could reduce its delinquency rate, and one credit operation was suspended.

BIA officials stated that in keeping with Indian self-determination, adequate administration of tribally operated programs, such as relending organizations, is left primarily to the tribe. As a result, BIA generally depends on the tribe and its tribal credit committee to insure that its relending program is operating on a sound financial basis.

BIA officials told us there was no firm or written policy on making additional loans to relending organizations with an excessive delinquency rate. They stated that every loan request is evaluated on a case-by-case basis regardless of the program's delinquency rate. They stated they probably would not make additional loans to a relending organization whose records indicated its program was in bad shape and had been gradually deteriorating. However, if there were uncontrollable factors, such as a drought, affecting an area's economy and repayment ability, an additional loan to the relending organization would be considered.

We question if BIA's policy in this regard is being adhered to. For example, in September 1976 one loan program had 47 percent of its loans in delinquent status. These delinquencies were 18 percent of its total dollar amount. In a January 7, 1977, letter to the financial assistance office, the BIA loan examiner stated that the tribal loan program

> "* * * has been allowed to operate under adverse and detrimental conditions in excess of reasonable considerations and responsibility. This is predicated on the record of four (4) poor examination reports * * * and the following prevailing deficiencies * * *."

The letter then listed five deficiency areas including "the continuous excessive delinquency status from year to year."

The acting Deputy Commissioner of Indian Affairs stated his concerns about the loan program to the Aberdeen area director who, in turn, conveyed them to the superintendent of the agency in May 1977. However, BIA records indicate the tribal credit program received a $250,000 loan in February 1977 and another $250,000 loan in July 1977. These actions are inconsistent with BIA's stated policy that programs experiencing continuous problems not be given additional loans.

Because of the large amounts being loaned to relending organizations ($10.9 million during fiscal years 1975-77), ideally BIA should restrict loans to only those relending organizations which are in sound financial condition, are following sound financial practices, and are maintaining a reasonably low delinquency rate. However, due to the nature of the program this may not be possible, but BIA should make every effort to do so.

Loans made without reasonable prospect of repayment

BIA has made loans from the revolving fund to corporations for which the required reasonable prospect of repayment was lacking. In accordance with the act, loans from the revolving loan fund may be made only when there is a reasonable prospect of repayment. However, it appears this element was missing in a loan BIA made to a fish-processing company in Alaska. This corporation represents a consolidation of three previously existing fish-processing operations owned by various native villages in southeast Alaska. These previous village operations received BIA loans in the past and owed the Federal Government more than $6.5 million, which they were unable to repay. In addition, the Federal Government canceled over $2 million of a previous debt.

The loan file indicated that BIA was not willing to loan additional money to these organizations as separate entities but did loan $1.5 million for operating expenses after the separate operations formed a single corporation.

BIA officials said the loan to the newly formed corporation was predicated on consolidation of the previous operations and pooling of certain collateral. BIA officials also relied on the favorable fish projections by the States' Department of Fish and Game for the coming year.

Repayment of the last loan appears questionable. The first loan payment of $200,000, which was due December 31, 1977, was not made. At BIA's request the Department of the Interior's Office of Audit and Investigation (OAI) performed a management survey of the corporation in early 1977. OAI stated in its March 1977 report that the corporation's accounting records were inadequate and that financial statements and budgets provided to BIA contained overstated receipts of approximately $739,000.

Inadequate accounting system

In 1975 BIA asked OAI to conduct a review of the Indian revolving loan fund. This review was made to determine if

BIA's processes and procedures were adequate to cope with the increased volume of the fund as a result of the Indian Financing Act.

In its report, dated June 6, 1975, OAI noted that BIA's automated accounting system was not functioning effectively because of lack of adequately trained personnel and that the most reliable means of control over the fund was through individual loan records maintained at the agency, area, and central offices. The report noted that this was not the best way of doing business from the standpoints of internal control or efficiency. The OAI report stated that the fund ledger accounts maintained by the Albuquerque Service Center were not accurate. For example, loans receivable were out of balance in the net amount of $700,000 at the end of fiscal year 1974. The report concluded that "without effective general ledger control, the possibility is increased for introducing significant undetected errors into the system."

On May 21, 1975, the Director, Office of Tribal Resources Development, commented on OAI's evaluation of the accounting system by stating:

> "We agree that the automated accounting system is not, or at least has not been functioning properly. We have, therefore, relied on the central office manually kept records for accurate information. Part of the problem has resulted from the BIA installing a new financial management system. Some field personnel, unfortunately, are not familiar with the element and component system of recording and reporting activities. This is a normal responsibility of the finance office to acquaint BIA personnel with the new system. However, we intend to give instructions to our field personnel in the credit office on the proper recording of credit transactions."

It has been over 2 years since this deficiency was brought to BIA's attention for corrections, but the situation still exists. BIA's automated system was inoperative and BIA was still relying on its central office's manually kept records for accurate information. Agency officials attribute this to lack of staff and resources to convert to an automated system.

Loan files lacked adequate documentation

Loan files lacked the required documentation on loans made under the Guaranteed and Insured Loan Program. We

reviewed 10 guaranteed loans, including 4 which were considered in default by the central office. Generally, the files lacked the documentation required by BIA regulations. For example, 25 CFR 93.15 (1977) requires applications for guaranteed loans to include, among other things, (1) a plan of operation for the economic enterprise, (2) repayment sources, (3) financial statements, (4) personal investment to be made by the applicant, and (5) lender's evaluation of the economic feasibility of the enterprise. Some of the files we reviewed were missing plans of operations and adequate feasibility studies of the enterprises. Most of the files did not have loan-closing documents, such as copies of notes and collateral.

The lack of adequate documentation was also noted by Department of the Interior auditors in a recent review of the Guaranteed Loan Program. The auditors reviewed 39 guaranteed loans at five area offices. In its November 30, 1977, report OAI stated that overall BIA had

> "* * * adequately identified the basic information needed for evaluating the feasibilty of a loan, including the potential repayment. However, the problem is that this information for many loans, was either not provided or, if furnished, was in an unacceptable and unusable format * * *."

Of the 39 loan files reviewed by OAI, 21 lacked part of the documentation required by Federal regulations and by BIA's operations manual. An example of deficient documentation involved a $66,000 guaranteed loan which was tied to a $44,000 Indian Business Development Grant to purchase equipment and provide operating capital for a construction business located on an Indian reservation in Montana. There was no detailed plan of operation in the loan file, and the lender's evaluation of the economic feasibility for this business consisted of one paragraph of apparently limited value. The loan was approved in February 1977 and is now considered to be in default. There is little evidence that BIA performed an analysis to determine the economic feasibility of the loan proposal.

BIA officials acknowledged that loans made during the early stages of the guaranteed loan program lacked adequate documentation but stated that action has been taken to correct this problem. BIA officials said guaranteed loan certificates are no longer signed with a private lender until all required documentation is obtained.

We believe that obtaining adequate documentation will provide a better basis for evaluating guaranteed loans if the information provided is substantive and not superficial. Accordingly, we believe BIA should insure that the information contained in the documents is accurate and complete.

Limited evaluations of loan proposals by BIA

In addition to the lack of adequate documentation, our review of four loans in default revealed that BIA made inadequate analysis of the loan proposals. Instead, BIA relied on commercial lenders' evaluations of the proposals which, in most cases, were superficial.

Documents of one loan indicated that the commercial lender may have given the enterprise a favorable appraisal of economic feasibility in order to protect the bank's interest. In April 1976 BIA received a request for a loan guaranty for a $525,000 loan to refinance an existing corporation, enabling an Indian to acquire full ownership of a campground on a North Carolina reservation. It appears that the enterprise was financially weak when it applied for the loan. The balance sheet revealed that its ratio of current assets to current liabilities was 1:3 when a ratio of 2:1 is traditionally considered by accounting standards to be adequate. In addition, its income statement showed a net loss of over $85,000 for the previous year's operations.

We believe these facts should have raised serious doubts about the economic feasibility of the project. However, from the loan file it does not appear that BIA or the lender considered these factors to be significant. In this case, it appeared the bank was trying to improve its financial position with the borrower. According to the firm's balance sheet, the lender held over $500,000 in notes prior to the loan.

BIA approved the 90-percent loan guaranty in June 1976. This action reduced the lender's risk considerably and authorized reimbursement for foreclosure expenses if the borrower defaulted on the loan. The loan was in default in October 1976.

A BIA official stated that in retrospect the loan should not have been made. The official said that BIA was especially eager to approve the loan because that would enable an Indian to acquire sole ownership of a non-Indian-owned business on a reservation. As a result, BIA ignored all warning signs and overstated the ability of the enterprise to service its debts.

Of the 39 loans reviewed by OAI, 6 were in default, representing a Government liability of approximately $475,000. As we had found with the default loans, OAI identified a "* * * need for more effective involvement, on the part of the BIA, in reviewing the feasibility of proposed loan projects."

Limited loan servicing by lenders

BIA relies almost entirely on lenders for servicing its guaranteed loans. In accordance with BIA regulations (25 CFR 93.46), the guaranty of a loan will be used on the requirement that adequate loan servicing will be performed by the lender. In servicing loans, lenders are to make every effort to prevent and minimize potential losses and should use prudence in disbursing loan funds to borrowers to assure, to the extent feasible, that loan funds are used for the purpose for which the loan is made.

OAI stated in its 1977 report that relying on lenders for servicing guaranteed loans was an "inadequate if not hazardous practice * * *." The report stated that:

> "In view of the program's default experience to date, and the government's potential liability for outstanding loans, we believe it is reasonable to expect BIA to establish appropriate monitoring procedures which would, as a minimum, provide information on a program participant's performance * * *."

BIA responded that it relied primarily on lenders to monitor guaranteed loans and stated that it was thinking of devising a system whereby lenders would be required to provide periodic monitoring reports to BIA area offices. As of December 1, 1977, BIA had not developed a monitoring reporting system.

BIA officials said that lack of staff and funds prevents BIA from actively monitoring guaranteed loans and that lenders were generally in a better position to perform this responsibility because of their proximity to the borrower. However, we noted that adequate loan servicing would be difficult to perform by at least one of the banks that has signed loan guaranty agreements with BIA.

One participating bank, located in Washington, D.C., has made 21 of the 96 guaranteed loans approved during fiscal years 1975-77. This privately owned bank was established in

1973 to assist in meeting American Indians' financing needs. Most of the bank's guaranteed loans are to individuals or corporations in the western half of the United States. A bank official stated that little is done in the way of monitoring or providing management assistance to the loan applicants because of the distance involved between the bank and most borrowers.

Of the bank's 21 guaranteed loans, 5 are in default. In at least one of these cases, it appeared from correspondence in the loan file that the distance between the bank and borrower created problems. In February 1977 BIA guaranteed a loan for $66,000 made by this bank to a construction company in Montana. The files indicate that the bank later had difficulty in servicing the loan. For example, in a June 1977 letter to the borrower, the bank's credit analyst stated:

> "I've been trying to contact you for a few days by telephone but is very difficult to reach you. The bank is a little concerned about some of the documentation problems that we are experiencing with this loan. We feel that these problems are minor, and that they have come about because of distance and not because of anyone's lack of cooperation."

There are 58 lenders participating in the Guaranty Loan Program in the areas where this bank has its five defaulted loans. BIA officials were unable to explain why so many Indians have contacted the bank for loans rather than private lenders closer to the proposed business enterprise. However, the officials speculated that the bank was favored because of its familiarity with Indian needs and financial conditions.

In our opinion, adequate loan servicing is important to a successful loan program. If lenders are unable or unwilling to provide adequate servicing or assistance to their borrowers for any reason, including distance, BIA should exclude them from participation in the program. BIA should establish a policy restricting participation in the guaranteed loan program to only those private lenders that demonstrate adequate loan-servicing capability.

Short repayment terms could impair program objectives

Loans requiring a BIA guarantee are often considered high risk by commercial lenders because of borrowers' lack

of collateral and/or business experience and training. These very factors seem to make it generally beneficial for the borrower to have the terms of repayment extended over a long period, thereby decreasing the monthly payments.

Of the 96 loans guaranteed by BIA, over 75 percent had maturity dates of 10 years or less, even though repayment periods of BIA-guaranteed loans can be as long as 30 years. Generally, the amount and purpose of loan funds dictate repayment terms. However, we were told by one BIA official that lenders' concern over being locked into a fixed interest rate with BIA over a long period appears to be a consideration in determining repayment terms. BIA regulations (25 CFR 93.41) state that "once a [guaranteed] loan is closed, the interest rate may not be increased even though the lender increases the rate on new loans * * *." An agency official told us that lenders do not like to be fixed to an interest rate for long periods and that this may be one of the reasons they restrict loan repayment terms to short periods. For example, one bank that has made 21 loans guaranteed by BIA has a policy of limiting loans to a 7-year period.

Short repayment terms create a large repayment schedule in the formative years of a new business and could possibly be a major factor in the failure of some businesses. For instance, the construction business that the bank had trouble in servicing (see p. 38) also appeared to have had excessive monthly payments compared to projected income based on expected contracts. The terms of the $66,000 guaranteed loan required the borrower to repay $1,100 per month for 5 years.

In a January 1977 memorandum to BIA's central office, the Billings area director discussed the loan:

> "* * * business is just starting so the projected income is based on expected contracts from renovation of homes located within the boundaries of the reservation and from construction of five places primarily off the reservation."

He added that "If the contracts do not materialize, a payment in excess of $1,100 per month would seem excessive." In this case, BIA's liability is 90 percent of the $66,000 loan in addition to loss of the $44,000 grant.

BIA officials agreed that large payments caused by short repayment terms could be detrimental to the success of a business enterprise; however, they were not sure what could

be done to encourage the lenders to cooperate. They stated that they try not to create a financial burden for the borrower and that over 80 percent of loans made from the revolving loan fund have repayment terms in excess of 10 years instead of less than 10 years.

In our opinion, BIA should not guarantee any loan having repayment terms that it believes might hinder success of the business. We believe the repayment terms of a loan contract should reflect the borrower's ability and potential to repay without creating a major financial burden on the business, especially during its formative years of operation. We believe that to do otherwise defeats the purpose of the loan guarantee program. Accordingly, BIA should review its position on allowing lenders to require short repayment terms. We believe the banks' concern over being tied to a fixed interest rate for long periods could be resolved by BIA's consideration of a sliding scale interest rate, subject to availability of funds.

Unreliable reporting system

Our review of grants made during fiscal years 1975-77 indicated that (1) report data on the grant program was unreliable because of administrative errors and failure of grantees to comply with reporting requirements, (2) documentation in grant files was incomplete, and (3) the amounts of some grants were incorrectly computed.

BIA maintains a computerized grant-reporting system which is supposed to include current information on the (1) amount of the grant, (2) type of business, (3) amount and identity of outside financing, (4) number of jobs created, and (5) status of the business. However, we found the data in the system to be unreliable. We found that some information was incorrect because of coding errors, outdated information, or incomplete data.

For example, we noted that status information on businesses started or expanded using Portland area office grants had not been updated. As a result, computer reports showing the status of the businesses indicated that all businesses were operating. Actually, some have failed and others were never started. We evaluated the status of the 163 grants approved in the Portland area office and found that 132 went for businesses that had started operations. Of these, 11 (about 9 percent) had failed. Of the remaining 31 grants, BIA officials stated that most had not started business operations because there had not been enough time since grant approval or for other reasons, such as change in grantee plans or lack of outside funding.

BIA officials acknowledge that the information in the system is inaccurate and attribute the problem to a lack of trained BIA staff and to infrequent reporting by grant recipients. Grant recipients are required to submit semiannual business status reports to BIA during the first 2 years after the grant is made and then annually for the next 3 years. BIA officials contend that grant recipients generally do not submit the reports because there is little incentive for doing so since the grant funds have already been disbursed. Without these reports, BIA has no way of accurately determining the status or effectiveness of the grant program.

In our opinion, BIA should concentrate on identifying and correcting the deficiencies in the grant computer system and require that each agency obtain the required reports from its grantees so that a valid assessment of the grant program can be made.

Other problems identified

We reviewed selected grant files at Eastern and Portland area offices and reports prepared by OAI and BIA credit examiners and found that documentation in many grant files was incomplete and that the grant amounts were often incorrectly computed. The grant files did not contain status reports required from the grantee and the changes that occurred during or after processing were not always documented.

Limited management and technical assistance provided by BIA

Indians' need for management and technical assistance has been well established. For instance, the American Indian Policy Review Commission made the following statement in its report issued May 17, 1977:

> "* * * it [technical assistance] is a crucial aspect of any effort by the Congress or Executive Branch to encourage Indian people in the performance of their own management, administrative, and technical functions. Technical assistance should be made available primarily for development of threshold management capabilities and to provide economic support activities."

BIA regulations covering the Indian Financing Act state that whenever a direct loan, guaranteed or insured, and/or a grant is made, management and technical assistance is to be provided to the borrower or recipient consistent with his

knowledge and experience and the nature and complexity of the economic enterprise being financed. The assistance is to be provided by BIA staff, other governmental agencies, the tribe, or other competent sources. The regulations also authorize contracts with private organizations for such services and assistance if existing programs are not available.

As of October 6, 1977, technical assistance contracts with outside sources totaling $121,300 had been approved from the implementation of the Indian Financing Act through October 6, 1977. However, BIA was unable to determine the type, extent, and total cost of management and technical assistance provided in-house. It appears that BIA provided limited assistance. For example, of the four default guaranty loans that we examined, only one borrower was given technical assistance. BIA officials said this was minor assistance in which the BIA area credit officer advised the borrower on various operational matters, such as purchasing.

We reviewed the grant program of one area office that approved 163 grants and found that 60 of the 163 grantees were either out of business or were having problems. Yet, 41 of the 60 had received no technical assistance.

An official of one tribal enterprise which received a BIA direct loan observed that the technical assistance provided by BIA is very rudimentary and that BIA staff lacked the necessary skills for providing meaningful assistance. The American Indian Policy Review Commission evaluated BIA's ability to provide management and technical assistance and concluded the same thing. The Commission report stated:

> "The present Bureau of Indian Affairs' technical assistance service is * * * inadequate for many reasons. Personnel are not appropriate to the requirements of a specialized technical assistance effort. There are no specialized technicians within the Bureau of Indian Affairs to provide for the rapidly increasing demand for specific expertise in highly technical areas. The depth of training and necessary experience precludes using or retaining existing personnel, in most cases. The present autocratic organizational structure is also not flexible enough to permit technicians to move quickly from area to area."

In addition, the YPO study on the Indian Financing Act reported that:

"On each visit, we heard pleas for meaningful technical assistance and management help. We were unable to identify any case where the IFA [Indian Financing Act] had provided effective technical assistance, probably because it is available under the IFA Act as a 'last resort' source * * * such assistance was less than useful. A budding enterprise cannot wait for various government agencies to negotiate which one can and should provide technical assistance."

BIA officials acknowledge the problem as indicated in a statement made by the assistant director for economic development in one area visited by the YPO team. In a letter responding to the YPO report, he said

"* * * to provide good management and technical assistance may be beyond our staff's capability. * * * We appreciate the YPO's comment that technical assistance is provided after considerable delay, as this is true."

Several alternatives are available to increase the amount and improve the quality of management and technical assistance given Indian economic enterprises. For example, the American Indian Policy Review Commission suggested in its report that the contract funds available from all of the various Federal agencies be delivered directly to tribes and that the tribes purchase their own technical services.

LEGISLATIVE RESTRICTION AFFECTING PROGRAM AVAILABILITY

In accordance with section 201 of the act, the individual Indians who are members or eligible for membership in an Indian organization that makes loans to its members are not eligible for a guaranteed loan. OAI estimated in a November 30, 1977, report that 300,000 Indians were not eligible for guaranteed loans because of their membership or eligibility for membership in tribally operated loan programs. The report indicated that none of the loan programs could deliver benefits equal to the guaranteed program and that some did not even have sufficient resources to meet demands.

OAI was unable to explain the rationale behind the restriction because its legislative history was not documented and no other authoritative source could be found. The OAI report concluded that restricting individuals from participating in the loan guarantee program because of access to tribal loan programs was unfair, especially since many of the loan programs were not as competitive. The report

discussed the possibility of tribes discontinuing their loan programs because of the restriction or access to the guaranteed loan program. We were told by BIA officials that individuals are incorporating in order to get around this restriction in the law.

OAI recommended that BIA propose legislation to the Congress which would eliminate the restrictive provision in section 201 of the Indian Financing Act. We were told by a BIA official that a proposal to eliminate this restriction and other legislative proposals will be submitted to the Congress in the near future.

CONCLUSIONS

Deficiencies in BIA's administration of the Indian Financing Act caused the loan and grant programs to suffer from

--delinquencies,

--loans without reasonable prospects of repayment,

--inadequate accounting systems,

--poor analysis of loan and grant applications,

--missing documents in loan and grant files,

--inadequate loan servicing by lenders,

--short repayment terms, and

--limited provision of technical assistance to business.

Further, BIA had not entered into any loan insurance agreements with lenders and is not sure why lenders are reluctant to participate in its loan program.

The Department of the Interior's Office of Audit and Investigation estimated that 300,000 Indians were not eligible for guaranteed loans because of their membership or eligibility for membership in tribally operated loan programs. The audit office was unable to explain the rationale behind the restriction because the legislative history was not documented and no other authoritative sources could be found.

RECOMMENDATIONS TO THE SECRETARY OF THE INTERIOR

We recommend that the Secretary of the Interior direct the Assistant Secretary for Indian Affairs to

--establish specific procedures and guidelines to preclude making revolving fund loans to tribal relending organizations that have experienced continuous problems;

--approve loans only when there is reasonable prospect of repayment;

--correct deficiencies in the revolving loan fund's automated accounting system;

--insure that the required documentation is obtained, is accurate, and is evaluated by BIA before making or guaranteeing loans and grants;

--establish a policy restricting participation in the guaranteed loan program to only private lenders that demonstrate adequate loan-servicing capability;

--insure that necessary technical and management assistance is promptly identified and provided; and

--concentrate on identifying and correcting deficiencies in the grant computer system, including requiring that each agency obtain the required information reports from its grantees.

The Assistant Secretary should also (1) review BIA's policy of allowing lenders to require short repayment terms on guaranteed loans and change the policy if it is not consistent with normal loan practices or places an unreasonable financial burden on the loan applicant and (2) determine the reason why there have been no insured loan agreements, the effect this has on hindering the development of Indian business, and what action is needed to make the loan program viable.

RECOMMENDATION TO THE CONGRESS

The Congress should determine whether or not the restrictive provision in section 201 of the Indian Financing Act preventing 300,000 individual Indians from participating in the guaranteed loan program should be continued and if not, amend it to allow participation.

CHAPTER 4

INDIAN BUSINESS DEVELOPMENT--MANY FEDERAL AGENCIES, NO FOCAL POINT

Federal programs or activities for business development on Indian reservations are scattered throughout various Federal departments and agencies. These programs have grown to a point where efforts at effective coordination are difficult. Limited program results and coordination problems point toward the need for one agency to direct and coordinate Federal programs for Indian business development.

Eight Federal departments or agencies conduct 25 programs or activities for which Indians can obtain loans, grants, or technical assistance for Indian business development. Details on these programs are described in the following sections.

BUREAU OF INDIAN AFFAIRS

BIA administers a small promotional and technical assistance program to assist the various Indian tribes in (1) establishing new and expanding existing industrial and commercial enterprises, (2) developing and publicizing information about investment possibilities on Indian reservations, and (3) establishing Indian-owned enterprises. BIA spent $7.8 million on these efforts in fiscal years 1975-77.

The resources available to BIA to fund business development activities significantly increased with passage of the Indian Financing Act of 1974. As pointed out in chapter 3, the act

--consolidated three existing revolving loan funds and increased funds available for direct loans,

--granted new guaranteed and insured loan programs,

--established interest subsidies for loans made under the guaranteed or insured programs,

--authorized business development grants, and

--provided for management and technical assistance to loan or grant applicants.

During fiscal years 1975-77, BIA spent about $106 million on Indian Financing Act activities.

DEPARTMENT OF COMMERCE

Economic Development Administration

EDA began to provide economic assistance to Indian tribes with passage of the Public Works and Economic Act of 1965 (42 U.S.C. 3121 et seg.). Under this act, EDA provided

--grants for reservation economic development and individual project planning;

--loans and grants to improve the reservations' support services, such as community buildings, water and sewer systems, and industrial parks, to make them more amenable for economic development; and

--investment capital to help finance business.

During fiscal years 1975-77, EDA disbursed over $108 million for these programs.

EDA also administered a program designed to alleviate problems caused by high unemployment. This program, authorized by the Public Works Employment Act of 1976, provided about $72 million in fiscal year 1977 for public works projects on reservations.

Office of Minority Business Enterprise

OMBE was established in 1969 by Executive Order No. 11458 with, among other functions, the reponsibility to

> "* * *coordinate as consistent with law the plans, programs, and operations of the Federal Government which affect or may contribute to the establishment, preservation, and strengthening of minority business enterprise."

OMBE, in turn, created an "Indian desk" which draws funds from the general OMBE allocation on a project-by-project basis for funding through its various regional offices. OMBE does not directly fund Indian businesses, but rather supports business development organizations which supply training and technical assistance to Indian enterprises. An OMBE official estimated that activities relating to the development of Indian enterprises averaged $1.8 million in each of fiscal years 1975-77. He estimated that $1.4 million will be spent for this purpose in fiscal year 1978.

In addition to its program activities, OMBE provides staff support to the Indian Business Development Committee, which is comprised of representatives from several Federal agencies. The activities of this committee are discussed more fully on page 54.

DEPARTMENT OF AGRICULTURE

Farmers Home Administration

FmHA makes loans and grants to individuals and communities, including Indians, located in rural areas. These loans are for housing, business and industries, and community facilities. Grants are given for industrial development, water and sewer systems, and technical assistance. FmHA does not set aside business or industrial development funds specifically for Indians or any other group but does administer one loan program specifically for Indians. This is the Indian land acquisition loan program available only to Indian tribes and tribal corporations. The following table shows funds loaned under this program.

Fiscal year	Amount
1975	$ 9,666,000
1976	a/ 12,148,000
1977	b/ 9,914,400
Total	$31,728,400

a/Includes transitional quarter.
b/As of July 1977.

Rural Development Service (RDS)

RDS provides coordination, leadership, and information assistance to governmental offices at all levels and to community groups throughout rural America. While RDS does not operate programs to provide loans or other financial assistance, it does provide information and technical assistance to aid Indians in gaining access to program resources. Indian tribes and reservations can obtain rural development advisory assistance, program and planning review assistance, and similar services. Total RDS program expenditures for fiscal year 1978 are estimated at $1.7 million.

In addition to the programs available through FmHA and RDS, the Department of Agriculture has an "Indian desk" to act as a focal point of all departmental activities concerning Indians.

The Secretary of Agriculture established a Special Task Force for American Indian Affairs to assist the Indian desk in carrying out its responsibilities. Task force members were appointed from the individual agencies within Agriculture; the task force is now inactive.

SMALL BUSINESS ADMINISTRATION

SBA is authorized to make loans to individuals or firms qualifying as small business concerns which, due to social or economic disadvantage, have been denied adequate business financing on reasonable terms through normal lending sources.

SBA's financing of Indian enterprises is through its business, economic opportunity, or local development company, or other loan programs. These programs provide investment capital either by lending directly to the entrepreneur or guaranteeing up to 90 percent of a lending institution's loan to the business enterprise. SBA also provides management and technical assistance by contract with private firms or through its volunteer programs--Service Corps of Retired Executives (SCORE), Active Corps of Executives (ACE), and the Small Business Institute (SBI).

During the period covering fiscal years 1975-77, SBA approved almost 700 loans totaling over $30 million to American Indians.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Community Services Administration

CSA's main efforts to provide financial assistance to Indians is through its Special Impact Program administered by the Office of Economic Development. Under the program, grants are directed to areas of critical economic and social problems in urban and rural communities with high concentrations of poverty. They include grants for neighborhood planning, commercial development, housing projects, and technical assistance. In addition, funds are available for social service activities that support business and community development. During fiscal year 1977, CSA disbursed over $4.5 million in three special impact grants to Indian organizations.

Administration for Native Indians (ANA)

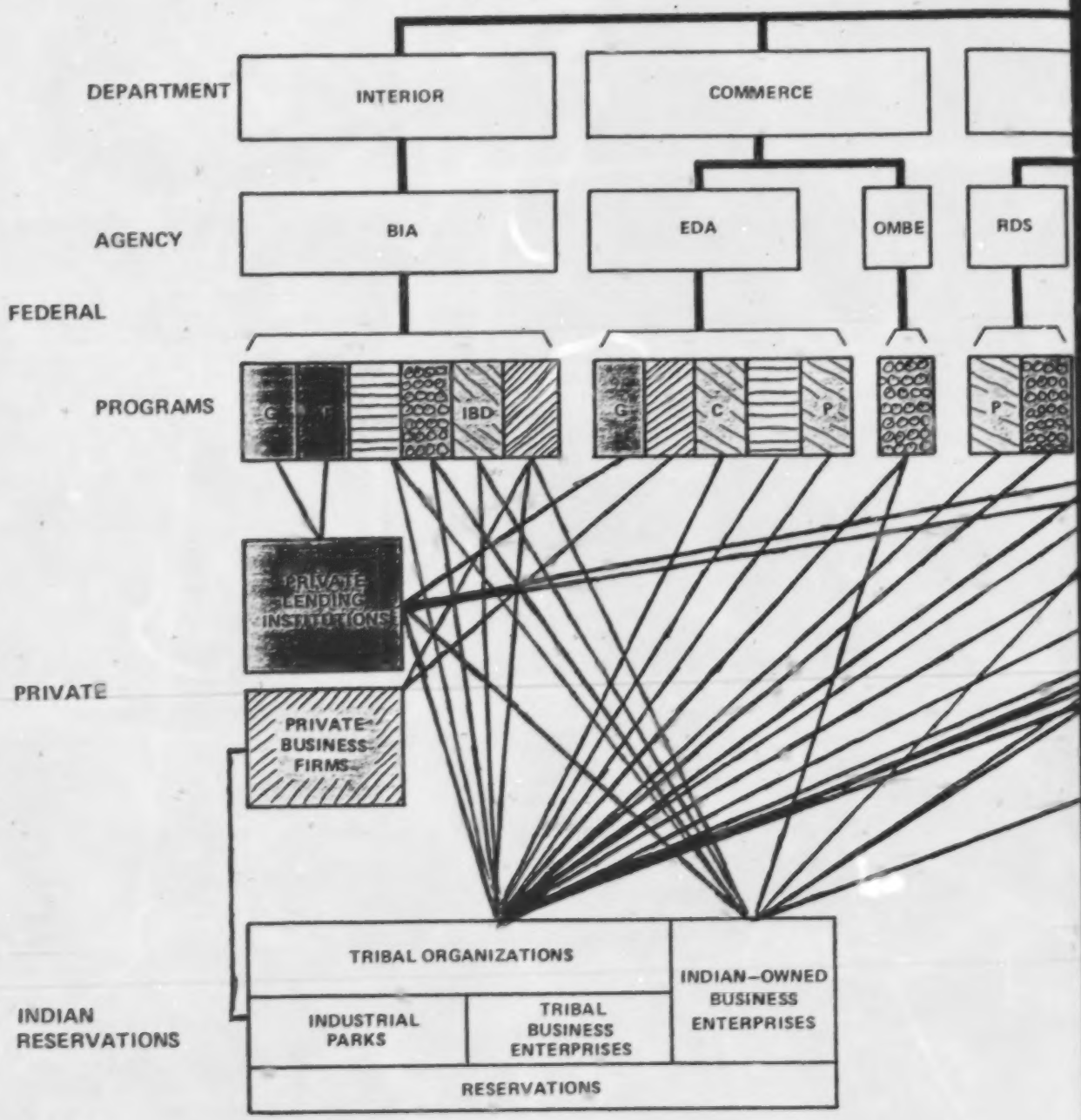
ANA provides financial and technical assistance to American Indians, Alaskan Natives, and Native Hawaiians to increase their self-sufficiency. ANA has provided grants to 110 tribal organizations and 68 urban Indian organizations. Financial support is primarily to create an administrative structure at the tribal or local level to serve as a catalyst for obtaining and managing a broad range of programs.

Training and technical assistance is provided to ANA grantees to acquire or improve resource management capabilities and to assist in developing new resources.

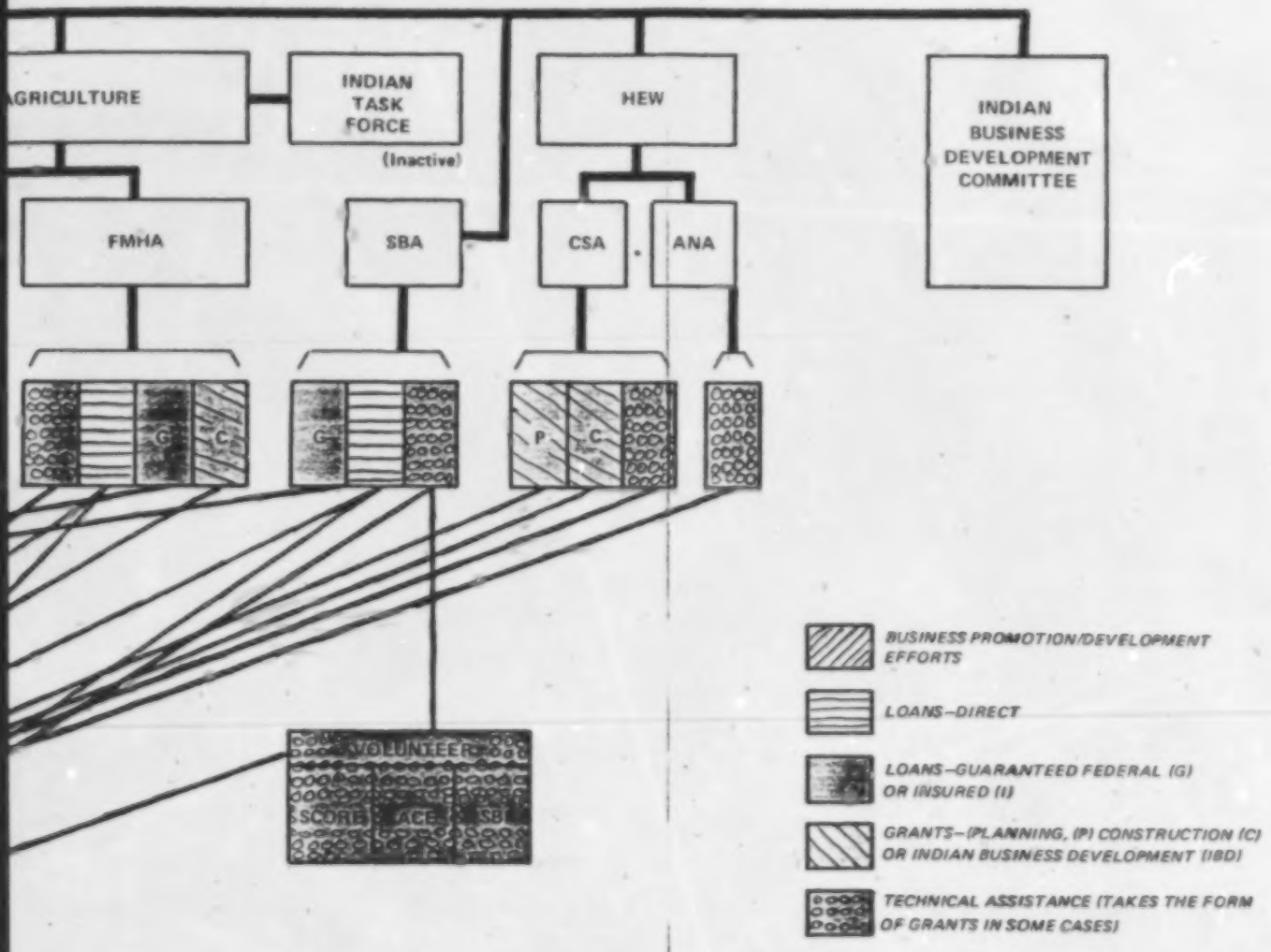
OVERVIEW OF FEDERAL PROGRAMS

The following chart shows the maze of Federal programs involved in the delivery of business development activities to Indian reservations.

FEDERAL PROGRAMS FOR E



ISINESS DEVELOPMENT ON INDIAN RESERVATIONS



RECOMMENDATION IN OUR 1975 REPORT

In 1975 we reported to the Congress 1/ that Federal agencies need to improve the coordination and management of Indian business development programs. We pointed out in the report that:

> "Responsibility for coordinating Federal economic development assistance efforts is fragmented. It is especially unclear what roles each agency should have in dealing with Indian needs in the context of their overall mission and program responsibilities. For example:
>
> --The President has given the Secretary of Commerce, through OMBE, the responsibility for coordinating Federal programs for strengthening minority business enterprises, including Indian enterprises.
>
> --The Congress has given the Secretary of Agriculture, through RDS, the responsibility to provide leadership and coordination of the Federal Government's effort to develop rural areas where most Indian reservations are located.
>
> --The Congress has given the Secretary of the Interior, through BIA, the responsibility for helping the Indians obtain a standard of living from their own productive efforts comparable to that enjoyed by non-Indians in neighboring communities. But BIA's responsibility for coordinating all Federal programs which affect this effort has not been specified."

In that report, we recommended that the Director, Office of Management and Budget (OMB), establish a domestic council committee on Indian affairs to

> --clarify Federal policy concerning Indian economic development assistance responsibilities of Federal agencies and
>
> --assign responsibility to a single agency for directing and coordinating program efforts.

1/"Improving Federally Assisted Business Development on Indian Reservations," (B-114868, June 27, 1975).

OMB took no action since that report to clarify the respective responsibilities of the various Federal agencies. OMB officials stated that they had considered establishing such a committee to clarify the responsibilities of the various Federal agencies but later decided against this. They took the position that coordination should take place at the reservation level. The Commissioner of Indian Affairs notified OMB in September 1975 that he was taking the initiative to advise his staff, at both the central office and field levels, that BIA has the responsibility of being the lead agency for coordinating Federal efforts for Indian economic development.

A year later, in September 1976, the Indian Business Development Committee was established as one of six committees of the Interagency Council for Minority Business Enterprise to strengthen and facilitate the coordination of Federal field efforts to develop Indian business enterprises. The Office of Minority Business Enterprise in the Department of Commerce provides the staff support for the committee. Members include OMB, SBA, the Departments of the Interior; Labor; Agriculture; Commerce; Housing and Urban Development; and Health, Education, and Welfare.

The Under Secretary of the Interior was designated at this first meeting to be the chairman of the committee. Through August 1977, five committee meetings were held, only one of which was attended by the Under Secretary. In August 1977 the Under Secretary declined the committee's chairmanship, and since that time the committee has been without a chairman and has continued without top level involvement. Later, in January 1978 OMBE withdrew its staff support from the committee by reassigning the OMBE employee who was the committee's executive director.

At the committee's first meeting in September 1976, two immediate objectives were established:

--Define terms significant and relative to Indian enterprise development and identify the type of field guidance and instructions needed to facilitate joint efforts.

--Identify statutory or agency regulatory barriers to joint action, including common problems and issues.

In December 1977, more than a year after the committee was formed, the committee's program director informed us that these objectives had not been accomplished. Instead, the

committee undertook the coordination of Federal efforts on two demonstration projects located on Indian reservations--a shopping center in North Dakota and a convenience center in New Mexico.

Shopping center

One of these projects--a shopping center in North Dakota --illustrates the problems associated with coordinating funds and efforts of the various Federal and other sources involved in Indian business development. Even though the committee's program director has spent about half of his time on committee activities, much of it on this one project, significant difficulties still exist. Grant funds promised to the project by BIA will not be delivered, and unless other sources of capital are found, SBA loans cannot be made. This will result in a completely new effort to secure several new tenants, even though in January 1978 the center was only 2 months from being completed.

The project, estimated to cost about $1.4 million, consists of a shopping center on an Indian reservation with seven stores and shops, a bank, restaurant, and post office. Construction started in June 1976 and is planned to be completed and ready for occupancy by March 1978. Construction funding was accomplished with a $888,000 grant from EDA and the remaining funds were provided by a revolving fund loan from BIA.

Plans for operation of the center involve leasing space to tenants, many of which include Indian businesses. These businesses, in order to obtain sufficient investment capital, require both BIA grants and SBA loans, with the loan approval dependent on receipt of the grants.

Although in January 1978 the center was only about 2 months from completion, it was not clear who the tenants would be. Problems were encountered in arranging financing for prospective Indian tenants:

--Four prospective tenants were told that since their spouses are BIA employees, they could not qualify for a grant because a Federal statute (25 U.S.C. 68) precludes Federal employees from having an interest or concern in any trade with Indians.

--Additionally, six prospective tenants had their loan applications (totaling $211,800) declined by SBA because the businesses did not appear to have the ability to repay the loans.

The project encountered a more significant problem in December 1977, when it was learned that there would be no BIA grant funds available for this project. At that time, six prospective tenants had been awaiting BIA approval of grant applications totaling $154,600. A tribal official told us he had been informed by a BIA official that $100,000 in grant funds would be provided about April 1978, pending completion of a Department of the Interior evaluation of the grant program. We learned later that Interior has decided not to request any additional funds for the grant program, thereby leaving BIA with no funds to honor this commitment and jeopardizing the SBA loans that are being sought by the prospective tenants.

Because of these funding uncertainties, a tribal official told us he plans to request an extension of time from BIA on the first loan payment in order to secure new tenants.

OTHER STUDIES

Other recently completed studies have also noted coordination problems with Indian business development. For example:

1. A report on the Indian Financing Act by the Young Presidents Organization in April 1977 stated that:

> "* * * lack of knowledge about what other agencies are doing and little coordination characterize all Indian loan and grant programs."

It further stated that:

> "* * * present lack of clarity and coordination is a feeding ground for irresponsibility and can be valuable only to those whose goal is to take advantage of a fractured Federal structure."

2. A May 1977 report by the American Indian Policy Review Commission in a chapter entitled "Federal Administration--Too Much Bureaucracy" also pointed out the problems of Indian programs being scattered through many different Federal agencies. The report stated:

> "* * * there is a serious lack of coordination both within and between Federal agencies. As a result, Indian people often fail to realize many of the benefits intended for them."

The report concluded that

> "OMBE, EDA, the Small Business Administration, and the BIA economic development division, along with other economic development programs, should be located in a single agency for better coordination and a more efficient delivery of Indian economic development budgets."

CONCLUSIONS

Federal programs or activities for business development on Indian reservations are scattered throughout various Federal departments and agencies. These programs have grown to a point where efforts at effective coordination are difficult. To resolve this problem, in 1975 we recommended that OMB establish a committee on Indian affairs to clarify Federal Indian economic development responsibilities and assign the responsibilities to a single agency for directing and coordinating program efforts. OMB did not implement our recommendation and took the position that coordination should take place at the reservation level. The Indian Business Development Committee was established to strengthen and facilitate coordination of Federal efforts to develop Indian business enterprises at the field level.

The Committee abandoned its overall objectives and concentrated on two reservations. This effort, however, was not effective in coordinating Federal economic development programs.

This raises a serious question: If, as with the shopping center in North Dakota, coordination efforts at the local level fail, even when a special effort is made, and OMB does not want to establish a committee on Indian affairs to coordinate Federal Indian economic development efforts at the national level, then is it possible to effectively coordinate Federal programs? Probably it is not, and therefore, we believe a single agency should be charged with the responsibility and held accountable for managing Federal programs for Indian business development.

The American Indian Policy Review Commission also concluded that Federal economic development programs should be located in a single agency for better coordination and a more efficient delivery of Indian economic development.

RECOMMENDATION TO THE CONGRESS

We recommend that the Congress consolidate Federal Indian economic development programs and place them in a single agency. This agency would be in a much better position to implement our other recommendations.

APPENDIX I

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

IMPROVING FEDERALLY ASSISTED
BUSINESS DEVELOPMENT ON
INDIAN RESERVATIONS
Department of Agriculture
Department of Commerce
Department of the Interior
Small Business Administration

D I G E S T

Greater success in establishing businesses on Indian reservations and increasing Indian employment opportunities will depend on Federal agencies' doing a better job in attracting sound business prospects to the reservations.

Because of the proliferation of Federal programs involving Indian financing, action is needed to determine how the agencies, co lectively, can meet Indian needs and assign responsibility to a single agency for directing and coordinating Indian economic development. (See p. 42.)

About 550,000 Indians live on or near more than 200 reservations under Federal jurisdiction. The reservations' economic environments are typified by high unemployment and low family income levels. (See p. 1.)

Several major Federal agencies administer business or industrial development programs under which Indians can obtain financial or technical assistance to improve economic conditions on reservations. (See p. 2.)

GAO's study, including its survey of businesses, showed that the agencies reviewed have had limited success.

GAO recommended that the Office of Management and Budget

--provide for an organizational framework clarifying Federal Indian economic development program and coordination responsibilities (see p. 40) and

--work with heads of departments and agencies to develop, by means of an interagency committee, (1) improved procedures for project evaluation and monitoring and (2) a systematic broad-scale promotional program (see pp. 24 and 45).

GAO also recommended that the Secretary of the Interior have the Commissioner of Indian Affairs identify solutions to problems of excessive Indian labor turnover and consider establishing a postemployment counseling program as one possible solution to helping the Indian worker adjust to a structured work environment. (See p. 41.)

The five Federal agencies that commented on the report generally agreed with the facts and conclusions and, except for Interior, supported the need for improvements in Indian economic development programs as embodied in the recommendations. (See p. 46.)

Interior disagreed with GAO's recommendations and expressed a reluctance to initiate any corrective actions without a tribal initiative on a reservation-by-reservation basis. (See pp. 47 to 50.)

Interior said it did not advocate establishing a formal coordinating mechanism as recommended by GAO but that it would cooperate with such a group if one were established. (See p. 47.)

GAO recognizes the role of tribal governments in effecting economic development of Indian reservations but believes the Federal Government must take the lead in a promotional program to insure that its scope and direction are broad enough to reach businesses most compatible with reservation development and, whenever possible, to channel economic potential onto the appropriate reservations. (See p. 48.)

A formal coordinating mechanism would provide a focal point for program administrators involved in Indian economic development efforts

to share experiences and work toward a sound approach to Indian economic development assistance. (See p. 40.)

Rewards at stake through better program results are considerable. If jobs planned for Indians through federally funded projects had been realized, unemployment on the seven reservations GAO reviewed would have dropped about 70 percent. (See p. 25.)

REPORTS ISSUED ON THE INDIAN FINANCING ACT PROGRAM

Department of the Interior
Office of Audit and Investigation

"Review of Loan Guaranty Program," Bureau of Indian Affairs, November 30, 1977.

"Review of Indian Business Development Grant Program," Eastern Navajo Agency, Bureau of Indian Affairs, December 17, 1976.

"Review of the Indian Business Development Program Grants," Bureau of Indian Affairs, 1976.

"Review of Indian Revolving Loan Fund," Bureau of Indian Affairs, June 6, 1975.

Other organizations

"Critical analysis of the Indian Business Development Grants Program," Mel-Bud Associates, June 3, 1977.

"Indian Review Policy Commissioner Report" pages 360-362, May 17, 1977.

"The Indian Financing Act of 1974," Young Presidents Organization Team Report, 1977.